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ECONOMIC RELATIONS BETWEEN THE SOVIET BLOC
AND THE COMMUNIST FAR EAST
1950 THROUGH MID-1956

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CENTRAL INTELLIGENCE AGENCY

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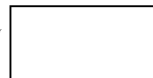
FOREWORD

This report is a companion study to CIA/[redacted] Economic Coordination and Integration of the Soviet Bloc, 1949-56, 1 May 1956, [redacted] [redacted] which investigated planning, trade, and financial relations as they function within the Soviet Bloc. It also discussed production specialization among the European Satellites and the present state of their economic coordination with the USSR. This report presents a similar analysis of the economic relations between the Soviet Bloc and the Communist Far East.

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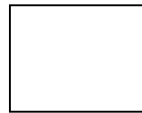
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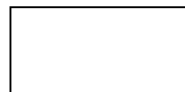
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CIA/
(ORR Project 41. 1583)

ECONOMIC RELATIONS BETWEEN THE SOVIET BLOC
AND THE COMMUNIST FAR EAST
1950 THROUGH MID-1956*

Summary

Some progress has been made in coordinating the economic plans of the Communist countries in the Far East (particularly Communist China) with those of the USSR and the European Satellites. Although not a member of the Council of Mutual Economic Assistance (CEMA)** of the Soviet Bloc, *** China attends CEMA meetings as an observer and participates in many of the Bloc's coordinating conferences.

Soviet influence on the internal economy of Communist China is most apparent in the similarity between the economic agencies of the Soviet and the Chinese governments and in the large number of Soviet advisers working in the Chinese economy. In imitating the Soviet administrative structure concerning separation of long-range planning

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 March 1957.

** Sovet Ekonomicheskoy Vzaimopomoschi' (literally, Council of Economic Mutual Assistance).

*** The Soviet Bloc consists of the USSR and the seven European Satellites, as follows: East Germany, Czechoslovakia, Poland, Hungary, Rumania, Bulgaria, and Albania. The Sino-Soviet Bloc consists of the USSR, the 7 European Satellites, and the 4 Far Eastern Communist countries -- Communist China, North Korea, North Vietnam, and Outer Mongolia. This report deals mainly with Communist China, to a lesser extent with North Korea and North Vietnam, and not at all with Outer Mongolia.

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and short-range planning at the central planning level, China is ahead of several of the Satellites.

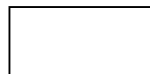
Apart from institutional similarity, Chinese Communist officials have assumed a certain "responsibility" for Sino-Soviet Bloc-wide coordination in supplying agricultural and mining products to European Bloc countries. An export surplus of these commodities is assured through Chinese planning. There is apparently no Chinese intention, however, to detract from the internal construction of a broad and extensive industrial base irrespective of Bloc specialization policies.

Communist China has a 5-year trade agreement with Czechoslovakia. Because of increasing Chinese-Soviet Bloc trade and the need for long-range planning in the export of complete industrial installations, other long-term agreements of this type are expected. The trade of China with the Bloc has increased from 26 percent of total Chinese trade in 1950 to more than 80 percent in 1955.

In addition to extensive Sino-Soviet Bloc-wide trading, Communist China receives much scientific-technical assistance from both the USSR and the European Satellites. Technical aid agreements have been signed between China and all these countries. Included in these agreements are provisions for the exchange or assignment of technical aid and technical information and for the loan of advisers and specialists.

The coordinated economic relations between the Soviet Bloc countries and the Communist Far East differ greatly from the relations between the USSR and the European Satellites. The former are not as extensive or highly developed as the latter, although the trend seems to indicate a closer coordination of the two areas in the future. Moreover, Chinese independence from the USSR -- in whatever degree it exists -- must be considered a continual obstacle to smooth economic coordination and a bar to any economic integration.

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I. Introduction.

The economic relations among the members of the Sino-Soviet Bloc are based on joint allegiance to Communism, a desire for mutual economic advantage, and unified international political strength. The nature of the Asiatic sector of the Bloc, however, differs from that of the European sector. Available information does not indicate that either North Vietnam or Communist China is a satellite of the USSR in the European sense, although Outer Mongolia and North Korea approach this status. In addition, there is the question of the extent of Chinese leadership in the Communist Far East. It is believed that, until that status is more precisely recognized and defined, economic relations between the Far Eastern Communist countries and the Soviet Bloc countries will be conducted on a bilateral basis.

Within Communist countries, economic cooperation is practiced in the fields of planning, trade, finance, and economic-technical assistance. Planning includes both over-all economic planning and specific production planning. Economic cooperation in trade includes not only intra-Bloc trade but also collaboration among the members of the Bloc in their trade with the Free World. Financial relations include payments procedures and various forms of loans and credits between the countries. Economic-technical assistance includes scientific-technical advice, the loan of technical experts, the training of unskilled workers, and the shipment to and/or construction of enterprises in less industrialized countries. These activities lead to a degree of coordination between various parts of the economies of the countries involved.

Between 1949 and mid-1956 the economies of the USSR and the European Satellites have been increasingly coordinated and have been progressing in the direction of more thoroughgoing integration. In this drive for coordination and integration the key organization is CEMA, whose members consist of the USSR and the seven European Satellites. The degree of economic coordination reached in the Asiatic sector of the Bloc, however, differs from that in the European sector. In the latter a state of full coordination and partial integration is approached; this is not yet the case in Asia. Although the two main parts of the Sino-Soviet Bloc are not at all fully coordinated, any progress in this direction involves

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important ramifications for the West, such as greater economic self-sufficiency for the Bloc as a whole, greater over-all productive capability, and enhanced ability to trade successfully with underdeveloped countries.

II. Coordination of Planning.

A. Between the USSR and the European Satellites (CEMA).

The Soviet government as of mid-1956 laid down the broad outline for long-range economic planning for the European Satellites. The annual and Five Year Plans are first prepared in each of these countries, are then coordinated with one another and with the USSR, and are given final approval by the Soviet government. The leading organization guiding this program for coordination is CEMA. 1/*

As the main coordinating agency for Soviet Bloc-wide planning and trading, CEMA exerts a considerable measure of control over its members (except the USSR) in these activities. The power and jurisdiction of CEMA include the right to approve each Satellite's annual and Five Year Plans, to supervise the coordination of all the plans in the Satellites, ** to determine individual production specialties in the various countries (for certain commodities), and to receive plan fulfillment and trade statistics from all the Satellites. 2/ The relationship of CEMA with the Communist Far East, however, differs somewhat from the pattern followed in Europe.

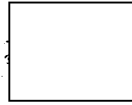
B. Between the USSR and the Communist Far East.

None of the Far Eastern Communist countries is a member of CEMA, although Chinese Communist representatives attend most if not all of its sessions as observers. This fact in itself indicates that the economic relations of China with the USSR and the European Satellites are considerably less coordinated than those between the USSR and the Satellites. The role of CEMA in the Communist Far East, however,

* For serially numbered source references, see Appendix D.

** CEMA does not coordinate internal Soviet plans, although it obviously works harmoniously with, and probably under the influence of, the Soviet planning bodies.

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appears to be on the increase. Closer economic coordination between the Far East and the European area of the Soviet Bloc was suggested late in 1955, when an official of the East German government talked of "dovetailing" economic plans between "Berlin and Peking." 3/ Presumably he referred to annual plans of the Communist countries. Similarly, Walter Ulbricht, First Deputy Prime Minister and First Secretary of the Communist Party of East Germany, recently hinted at coordination of plans among all Communist countries, including those in the Far East. He stated, "Party members must realize that the decisive target figures are balanced by an adjustment process between the Soviet Union and the other states of the socialist and democratic camp. It is a big job to balance the most important target figures of the Five Year Plans among all the states from Korea to the GDR [East Germany], an area with a population of 1.2 billion. We are grateful to the Central Committee of the CPSU [Communist Party of the USSR] and the Soviet government for their great initiative in the gradual solution of this task." 4/ With respect to the economic relations between the two areas, official Bloc sources have mentioned CEMA as supervising the economic and technical aid between them, mediating disputes over lagging commodity deliveries, and establishing procedures for economic cooperation. 5/ One unsubstantiated report describes the functioning of this coordination as follows: bilateral discussions are first held among China, North Korea, and North Vietnam; and subsequently, over-all coordination between these countries and the European Satellites is brought about by CEMA, which resolves any necessary adjustments between conflicting plans. 6/

In spite of these reports, the evidence is too limited to warrant the conclusion that the USSR exerts a decisive control over Chinese Communist planning. Coordination throughout the Sino-Soviet Bloc, however limited, can be assumed to result in a certain degree of influence, if not actual control, over the planning of each country. The existence of this influence in China can be deduced from a report that the draft of the Chinese Second Five Year Plan is being rewritten, 7/ perhaps partly in response to the disruption of Satellite plans following the political unrest in those countries in late 1956.

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Although Communist China cannot be considered a Satellite in the usual sense, the USSR exercises a great deal of influence over the Chinese economy. The most apparent indication of this influence is in the governmental institutions established to handle Chinese economic affairs. In their effort to establish a planned economy the Chinese have borrowed heavily from Soviet experience and have adopted many of the formal institutions which the mentor country had established. The Chinese State Council, the supreme governmental administrative body, was patterned after the Council of Ministers of the USSR. In addition, there are Soviet advisers attached directly to the State Council, and there is a Foreign Experts Bureau within this council.

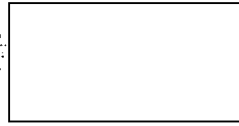
The central planning organizations for Communist China are the National Planning Commission, which engages in long-range planning*; the National Economic Commission, which handles annual planning; and the National Technological Commission for planning technological developments. It is highly probable that Soviet advisers sit on the Chinese commissions. The Chinese press frequently commends Soviet specialists and the use of Soviet techniques in planning procedures. The newly established Scientific Planning Commission, created for the purpose of drafting a 12-year program of scientific research, has the advice of top Soviet specialists in this field. 8/ More significantly, perhaps, the USSR supplies a large amount of capital for the industrial development of China. Thus in long-range planning the need for closer coordination between China and the USSR is particularly important because of Soviet influence in Chinese industrial construction.

Reports concerning Sino-Soviet conferences held in Moscow during August 1956 give some insight into the degree of influence which the USSR exercises over certain parts of Chinese Communist planning. 9/ In areas of planning involving certain industrial construction, the Chinese are limited by the amount of financial and technical aid which the USSR will extend to them. The August conferences reflected a sharp reduction

* The USSR established two planning bodies (long-range and short-range) in the spring of 1955. Not all of the European Satellites have made the corresponding changes as yet.

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in the amount of planned investment available to Chinese ministries. The initial Chinese proposals for the Second Ministry of Machine Building and the Ministry of Electric Power in their 1957 investment plan were cut approximately 50 percent.

Soviet influence on the North Korean economy is also extensive. The economic organization of North Korea, like that of Communist China, is a centralized governmental structure closely patterned after the USSR.

C. Between the Soviet Bloc and the Communist Far East.

Although not members of CEMA, the Far Eastern Communist countries actively participate in some of the specific Sino-Soviet-Bloc-wide coordination programs. In the economic field, Communist China, Outer Mongolia, and North Korea in 1954 joined the European Bloc agreement on international railroad goods traffic (Soglasheniye Mezhdunarodnogo Gruzovogo Soobshcheniya -- SMGS) and passenger traffic (Mezhdunarodnogo Passazhirskogo Soobshcheniya -- MPS) and have participated in Bloc conferences of railroad officials for the purpose of exchanging scientific and technical information in such fields as standardization of the manufacturing of railroad cars and the production of technical equipment. 10/ A Joint Nuclear Physics Research Institute for pooled scientific research was planned at a conference in 1956 which included all European and Far Eastern Communist countries except North Vietnam. Another conference in 1956 in standardization of production was attended by China, North Korea, and Outer Mongolia. ✎

Both North Korea and Outer Mongolia have issued statements to the effect that the principle of division of labor* among socialist countries will be considered in long-range planning. 11/ Publicity also has been given in the Chinese Communist press to the specialization of production within the socialist community. References to Chinese participation in the principle of division of labor, however, are vague. In a speech before the Eighth Party Congress in September 1956, Chou En-lai described the responsibility of China in Sino-Soviet Bloc economic coordination as that

* The principle under which each country specializes in the production of certain commodities for the purposes of the Sino-Soviet Bloc as a whole.

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of supplying needed "farm products, pastoral [animal] products, mineral ores, raw materials, and certain mechanical and industrial products" to the other Communist countries. National planning, according to Chou, insures adequate quantities of these materials for export. Chou was careful to explain that, in spite of economic and technical cooperation among the socialist countries, it is still essential that China establish a complete industrial base rather than one founded on specialization of production. He cited as reasons for this the size of the country and the abundance of natural resources. 12/ The precise role to be played by China in any Bloc-wide division of labor scheme, then, is still largely undefined.

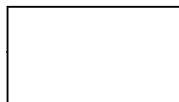
Another factor, not mentioned by Chou, is the unpreparedness of Communist China for extensive industrial specialization. According to present planning, it will require three Five Year Plans to establish an industrial base. Consequently, before 1967 China is not likely to consider broad-scale industrial specialization for a Bloc-wide coordinated economic program at the expense of establishing a large industrial base of its own.

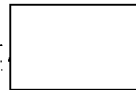
III. Trade Relations.

Trade agreements between Sino-Soviet Bloc countries are negotiated and signed by representatives of the respective foreign trade ministries and are implemented by subordinate import-export corporations. Foreign trade arbitration committees are established within the several countries to handle disputes arising between the national import and export organs on matters of quality, delivery date, and price. 13/

A. Trade Agreements.

Trade agreements between Communist China and the other members of the Sino-Soviet Bloc are established on a barter basis, with the exception of a few which are specifically designated as "barter and payments" agreements. 14/ The agreements are for a specified period of time but remain in force beyond the end of the stipulated period unless one of the members serves a termination notice. The parties to the agreement meet annually and sign protocols concerning the volume and type of commodities to be exchanged in the following years. A clearing





system of accounting is normally provided, and the negotiations are bilateral. 15/

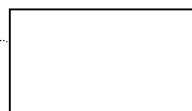
Communist China and the USSR have made long-term trade arrangements to exchange industrial equipment for agricultural products, and China and Czechoslovakia have inaugurated a long-range trade agreement which encompasses the period of the Chinese Second Five Year Plan (1958-62). 16/ This long-range planning for trade relations is particularly important in the export of complete industrial installations which may take several years to complete. It may be expected that China will enter into such agreements with several other European Satellites.

B. Pattern of Trade Between the Soviet Bloc and Communist China.

When the Communist government took over control of China in 1949, the amount of trade between it and the other Communist countries was expected to rise markedly. This expectation was fulfilled. The trade of Communist China with the remainder of the Sino-Soviet Bloc and with the USSR in 1950 and 1955 is estimated to have been as follows 17/:

<u>Year</u>	<u>Trade with Sino-Soviet Bloc Except USSR (Million US \$)</u>	<u>Increase (Percent)</u>	<u>Trade with USSR (Million US \$)</u>	<u>Increase (Percent)</u>	<u>Total Trade (Million US \$)</u>
1950	30		255		285
1955	1,130	3,766	2,480	972	3,610

According to official Chinese Communist sources, trade with the Soviet Bloc rose from approximately 26 percent of total foreign trade in 1950 to 75 percent in 1953 18/ and 80.7 percent in 1955. 19/ Of this 80.7 percent, it is estimated that 54.5 percent was with the USSR, 20.5 percent with the European Satellites, and 5.7 percent with other Far Eastern Communist countries. 20/



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These data show that Chinese Communists have largely reversed the traditional Chinese pattern from trade with the Free World to trade with the Sino-Soviet Bloc. This indicates in part the progress achieved in economic coordination between the Communist Far East and the other components of the Sino-Soviet Bloc. It also indicates the impact of Western export controls under COCOM, although this consideration may have only hastened a more or less inevitable Bloc orientation for Communist China.

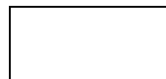
C. Commodities Involved in Trade Between the Soviet Bloc and Communist China as a Reflection of Specialized Production.

Communist China exports to the rest of the Sino-Soviet Bloc agricultural and animal products; some pig iron and rubber; some tungsten and molybdenum in ore concentrates; and some tin, mercury, and antimony in metallic form. In return, China imports industrial equipment and raw and finished materials needed for industrial construction. There is little evidence, however, that China has been officially assigned these export specialties in the interests of economic coordination within the Bloc. They are in most cases native commodities which are needed throughout the Soviet Bloc. China does collaborate with Bloc countries in trade with the Free World, however: it buys some Far Eastern rubber for re-export to the USSR and to Eastern Europe and uses the European Satellites as agents in the procurement of strategic commodities from the Free World.

The First Five Year Plan (1953-57) of Communist China calls for 800 large industrial units to be constructed or renovated, 500 of which are to have been completed by the end of 1957. 21/ China is to import from the USSR materials for the construction and equipment of 205 industrial projects, 179 of which are scheduled to begin construction during the period of the First Five Year Plan. Both Chinese and Soviet sources describe the latter projects as the core of the program for industrializing China, 22/ and the USSR is to give assistance on them through all stages of construction -- geological survey and selection of a construction site, designing the plant, supplying and installing the capital equipment, and beginning production. Assistance is given to projects other than these key ones through the program of technical and scientific cooperation and the use of technical experts from the

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USSR.* China, with substantial assistance from the European Satellites and the USSR, is to construct the remaining 621 projects of the 800.

Communist China imports agricultural machinery, powerplants, and generators from almost every Satellite. The product specialties of each Satellite in the Soviet Bloc division of labor, together with Chinese Communist imports from that Satellite, follow.

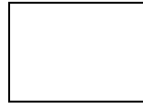
East Germany specializes in machine tools, precision instruments, transportation equipment (passenger cars and trucks of a specific size), chemicals, and agricultural equipment (such as grain and potato combines and heavy tractors). 24/ In addition to these products, Communist China imports from East Germany industrial machinery, powerplants, generators, fertilizers, and machine tools 25/ and has been sent the following complete industrial installations: a telecommunications combine, a steel rolling mill, powerplants, a sugar factory, cement plants, glassworks, a penicillin plant, and an abrasives plant. 26/

Czechoslovakia specializes in transportation equipment, machine tools, construction equipment, lubricating oils, and chemical plants as well as agricultural machinery (such as sugar-beet and flax combines and cultivating tractors), aircraft, and textiles. 27/ Communist China imports from Czechoslovakia the first five of these commodities in addition to diesel motors and engines, dyes, drugs, and telecommunications equipment. 28/ China has also negotiated and possibly concluded agreements with Czechoslovakia for complete industrial installations such as thermal electric powerplants, sugar refineries, a nitrogen plant, a radio transmitter, a metallurgical combine, and a freezing plant. 29/

Poland specializes in transportation equipment (buses, locomotives, and passenger cars), sugar, sugar refining equipment, and chemicals -- all of which it exports to Communist China 30/ -- plus mining products, coal and coke, shipbuilding, and cement. 31/ The following complete industrial installations have been exported to

* There are instances in which Satellite equipment and/or personnel is used in Communist China in projects attributed to the USSR. 23/

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China: sugar refineries, port facilities, collieries, a glider plant, a chemical fertilizer plant, cylinder-boring mills, and cement factory equipment. 32/

Hungary specializes or will specialize in the production of transportation equipment (diesel train units and large buses), electric power equipment, heavy construction equipment, machine tools, aluminum, and bauxite. 33/ Communist China imports from Hungary telecommunications equipment, precision instruments, motor vehicles, pharmaceuticals, petroleum products, and certain types of ships (cargo, fishing, tug, freighter, and patrol). 34/ Complete industrial installations in the fields of telecommunications and ore dressing may be exported to China. 35/

Rumania specializes in lubricating oils, drilling equipment, and powerplants, which Communist China imports, 36/ in addition to agricultural commodities and machinery (corn combines), lumber, and wood products. 37/

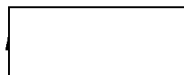
Bulgaria specializes in ore production (pyrites and miscellaneous ores and concentrates) and agricultural machinery. 38/ Communist China imports from Bulgaria agricultural machinery, cotton, tobacco, ore dressing plants, and chemical fertilizers. 39/ Some Bulgarian exports to China are known to be reexports of Hungarian and Czechoslovak goods. 40/

Albania specializes in certain agricultural products (such as medicinal plants and tobacco) and mining products such as chrome ore 41/ and has agreed to send Communist China copper, tobacco, and cotton textiles. 42/

The terms of trade between North Korea and the Soviet Bloc are somewhat different from Chinese Communist - Satellite trade in that many North Korean imports from both the USSR and the Satellites come as economic aid rather than as purchases. The Satellites are sending to North Korea technicians, complete industrial installations, and industrial equipment. Commodities shipped to North Korea include the following 43/:

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Germany

Diesel engine plant
Publishing and printing plant
Electrical equipment plant
Telephone switchboards
Agricultural equipment
Construction machinery
Electric motors and transformers
Medical equipment

Czechoslovakia

Hydroelectric power stations
Automotive parts plant
Machine tool plants
Cement plant
Transportation equipment
Agricultural equipment
Medical supplies

Poland

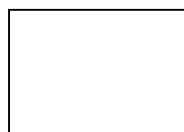
Locomotive repair plants
Motors
Passenger and freight cars
Trucks and tractors
Concrete mixers
Consumer goods

Hungary
(prospective)

Machine tool plants
Dye plants
Measuring instrument plants
Buses and trucks
Medical supplies
Organic chemicals
Telephones

Rumania

Cement plant
Aspirin plant
Brick plants
Freight cars
Fishing boats
Passenger coaches
Tractors and bulldozers
Consumer goods





Bulgaria
(prospective)

Brick plant
Woodworking plant
Textile machinery
Glass
Consumer goods

North Vietnam receives aid from and trades with virtually all countries of the Soviet Bloc. North Korea and Outer Mongolia are included in this exchange, and both of these countries have made token contributions to the rehabilitation of North Vietnam. The USSR has granted \$100 million* in aid over a 2-year period to build 25 industrial and public utility enterprises, to check epidemic diseases, and to furnish certain foodstuffs. Chinese Communist aid to North Vietnam totals \$327 million over a 5-year period. This aid is to assist in rebuilding railroads; river docks; highways and bridges; textile mills; tanneries; and factories for manufacturing medical, electrical, and agricultural equipment. Commodities reported to be shipped from the Satellites to North Vietnam include the following 44/:

Germany

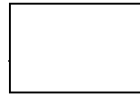
Polygraph printing works
Chemicals
Medicine
* Equipment for chemical works
Optical equipment
Machine tools
Mining equipment
Electrical equipment

Czechoslovakia

Diesel motors
Textiles
Water pumps
Chemicals

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





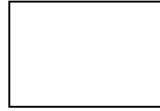
Poland	Transportation vehicles and equipment (automobiles, trucks, and ships) Medicine and medical equipment Textiles Rice
Hungary	Agricultural machinery Industrial machinery Transportation vehicles Medicine and medical instruments Consumer goods
Rumania	Electrical equipment Consumer goods
Bulgaria	Electrical equipment Construction equipment Chemicals Medicines

IV. Technical Assistance to the Communist Far East.

A. Forms.

The industrialization program of Communist China requires technical assistance in the form of capital equipment, production techniques, specialists and technicians, scientific information for planning and designing, and manpower training. The USSR and the Satellites extend such technical assistance to China in a number of forms. Trade contracts for the construction of complete industrial installations in China involve technical aid in planning and designing, in construction of plants and installation of equipment, and in the training of local technicians. The individual contracts fix the type of assistance to be furnished. Academicians and technicians are sent to China in conjunction with commercial fairs and exhibits, and they often remain to lecture and travel





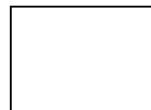
throughout the country. Specialists and advisers are sent from industrial ministries and academic institutions to corresponding Chinese organizations under cultural exchange agreements. Soviet advisers are plentiful throughout the Chinese economy. The Chinese press has frequently commended Soviet production techniques in agriculture, forestry, electric power, coal mining, petroleum, heavy and light industry, and construction and has praised management techniques for labor, finance, and planning and statistics as well as for the assistance rendered in scientific research.

One of the most publicized forms of technical aid is the assistance by means of scientific-technical collaboration commissions. Since 1954, Communist China has signed agreements for scientific and technical cooperation with the USSR and with all of the Satellite countries. Each of these bilateral agreements provides for the establishment of a joint scientific-technical collaboration commission which meets annually or biannually to determine the fields of cooperation. The location of the meetings alternates between the two countries. Three types of aid are distinguished in each of the agreements -- technical aid, technical information, and advisers and specialists; the choice of form apparently depends on the field concerned.

B. Administrative Machinery.

Available information does not reveal the extent of the authority of the scientific-technical collaboration commissions. How much coordinating these commissions do and how much control they exercise in the exchange of information and specialists is only vaguely known. Some technical aid is carried out as an integral part of trade contracts, as shown above, and therefore is conducted through the ministries of foreign trade and their technical import-export corporations. In addition, each of the Soviet Bloc nations is presumed to have a government office associated with the planning system which is responsible for scientific and technical cooperation -- such is the case in East Germany, Czechoslovakia, Poland, and Hungary. In the USSR the Chief Directorate for Economic Relations (GUES)* and its subordinate Directorate for Scientific and Technical Collaboration are responsible for economic and technical assistance

* Glavnoye Upravleniye Ekonomicheskikh Sootnosheniy.



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to other countries. 45/ In Communist China a Technical Cooperation Bureau has been set up under the Ministry of Foreign Trade for the planning and negotiation of industrial projects which China is buying from the Soviet Bloc. 46/ The ministry carries out the program through a technical import corporation and special bureaus for trade with the USSR and the European Satellites.

In the Soviet Bloc, bilateral agreements on scientific and technical cooperation are coordinated through the bilateral councils of the Executive Committee of CEMA. 47/ It appears likely that such agreements between the Satellites and Communist China are made under the guidance of CEMA.

C. Specific Agreements.

GUES is known to assign code, or "Tema,"* numbers to scientific and technical cooperation projects for both the European Satellites and Communist China. A recent study of such code numbers assigned to China 48/ identifies the projects under the numbering system with those enumerated in the scientific and technical cooperation agreements signed between the USSR and China. Since 1954 the USSR has agreed to send to China information on industrial construction (power stations and metallurgical and machine building plants); designs for coal mining facilities, railroad facilities, blast furnaces, concentration plants, pumps and compressors, transportation equipment, crushing and grinding machines, agriculture machines, industrial chemical equipment, ore-dressing plants, and petroleum plants; and technical data on such items as pigments, dyes, and other chemical products. Chinese specialists will go to the USSR to study the coal, metallurgical, petroleum, textile, and building industries as well as architecture. 49/

As is the case with commodity exports, there is a parallel between the technical information which an individual Satellite furnishes to Communist China and the type of production in which it specializes under the Sino-Soviet Bloc division-of-labor concept. Thus Bulgaria provides agricultural information; Hungary provides specification on transportation equipment, machine tools, and heavy industry; Rumania provides techniques of petroleum extraction and processing; Czechoslovakia provides information regarding heavy industry production, machine

* The precise meaning of Tema in this context is unknown, although it is derived from the Russian word tema, meaning "theme" or "subject."



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building, and textiles; Poland provides technical assistance on metallurgy, mining, chemicals, sugar refining, and port and ship construction; and East Germany provides assistance in the field of general machine building. Chinese contributions to this exchange are usually in the fields of water conservancy, light industry (such as food processing, porcelain, and textiles), and agriculture.*

Since 1953, North Korea has signed scientific and technical cooperation agreements with all of the Satellites except Albania. The USSR is sending technicians to assist in agricultural and city planning in connection with the installation of all types of industrial enterprises (concentrating on the metallurgical and mining industries). Chinese Communist assistance to North Korea concerns largely railroads, light industry, and construction. The joint Sino-Soviet Bloc effort to rebuild North Korean industry also reflects Satellite production specialization. Technical assistance in transportation and construction comes from Poland, in electric power and machine tool production from Czechoslovakia, in the engineering industry from East Germany, in the timber and forestry industries from Bulgaria, and in the construction industry from Rumania. 50/

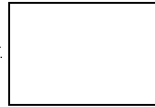
V. Financial Assistance by the Soviet Bloc to the Communist Far East.

Communist China is receiving some financial assistance in the form of loans from the USSR, but its economic relations with the Satellites are conducted on a pay-as-you-go basis. North Korea, on the other hand, has received promises of extensive aid from both the USSR and the Satellites.

North Korea has signed economic agreements with Communist China and the Soviet Bloc countries (with the exception of Albania) for aid in its rehabilitation. The Satellites have promised to extend assistance to North Korea during 1954-64 amounting to \$230 million (which North Korea is under no obligation to repay) in the form of technicians, complete industrial installations, and commodities. Total aid received from the Bloc by the North Koreans in 1954 was \$255 million and in 1955 was \$224.6 million. 51/

* For a more complete list of fields in which scientific and technical information will be exchanged between the Satellites and Communist China, see Appendix A.

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Soviet financial assistance to Communist China has taken the form of loans for military purposes, for industrial development, and for the purpose of effecting the capital transfer of the Soviet share of four Sino-Soviet joint-stock companies.

A. Military Loans.

Military loans from the USSR to Communist China possibly averaged more than \$500 million annually during 1953-55. 52/ No announcements have been made concerning military loans during 1950-52, and the intelligence for this period is incomplete. Analysis of Chinese foreign trade during this time, however, suggests that some form of military credit was extended. The most recent information contained no reference to a military loan from the USSR in 1956. 53/ The Chinese budget of 1956 implies that the only foreign loan available to China from the USSR was an installment on the industrial loan of October 1954.

During 1950-56 the Chinese Communists received military equipment worth approximately \$2 billion in the form of loans or grants from the USSR. These are estimated to be as follows:

<u>Year</u>	<u>Loans</u> <u>(Million US \$)</u>
1950	200
1951-52	300
1953	500
1954	450
1955	545
1956	0

B. Loans for Industrial Development.

Soviet financial assistance to Chinese Communist industrialization has taken the form of two modest loans. Under the agreement of 14 February 1950 a credit of \$300 million was extended to be used in





equal amounts over a period of 5 years, beginning in 1950. 54/ The Chinese agreed to repay the loan within 10 years at the rate of \$30 million annually. The first installment was due not later than 31 December 1954. On 11 October an additional credit of \$130 million was announced. 55/ Information concerning its terms was not released. It appears to be a continuation of credits along the line of the agreement of 1950.

A summary of Soviet loans to Communist China for industrial development in 1950-56, including available information on their actual use and repayment, is shown in the table.

Table

Reported Soviet Loans to Communist China
for Industrial Development, Their Use, and Repayment 56/
1950-56

				Million US \$	
<u>Year</u>	<u>Amount</u>	<u>Use</u> <u>(Imports)</u>	<u>Repayment</u> <u>((Exports))</u>		
1950	300	14			
1951		64			
1952		80			
1953		68			
1954	130	71	30		
Total		<u>297</u>			
1955		50	30		
1956		55			
Total		<u>105</u>			
Grand total		<u>402</u>			





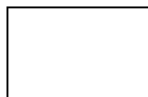
C. Loans Received to Effect Capital Transfers.

When the Communists took control of China, four Sino-Soviet joint-stock companies were formed in areas of special interest to the USSR. Two of these, the Sino-Soviet Petroleum Company and the Sino-Soviet Nonferrous and Rare Metals Company, were established in Sinkiang to promote the exploitation of mineral resources. A third company, the Sino-Soviet Company for Aviation, was established to promote civil aviation. A fourth company, the Sino-Soviet Shipbuilding Company, was established to engage in shipbuilding and ship repair at Dairen. The USSR furnished capital equipment and technical knowledge. The production of these companies was to be divided equally between the two countries.

On 1 January 1955, all four Sino-Soviet joint-stock companies were turned over to Communist China. 57/ The Soviet share of the companies is carried as a long-term loan, which China is to repay by the normal export of commodities over a period of years. It is estimated that the share thus acquired by China is worth approximately \$75 million.

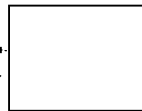
The former share of the USSR in the four Sino-Soviet joint-stock companies is estimated as follows 58/:

	<u>Million US \$</u>
Sino-Soviet Petroleum Company	28
Sino-Soviet Nonferrous and Rare Metals Company	10
Sino-Soviet Company for Aviation	2
Sino-Soviet Shipbuilding Company	35



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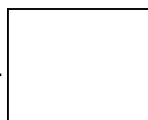


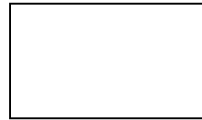
APPENDIX A

SCIENTIFIC AND TECHNICAL COOPERATION AGREEMENTS
BETWEEN THE EUROPEAN SATELLITES AND COMMUNIST CHINA
1954-56

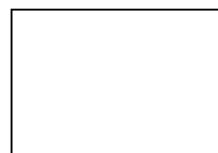
<u>Country</u>	<u>Subject</u>
East Germany to Communist China <u>59/</u>	Textile manufacturing Metallurgy Heavy machine building Electrotechnical developments Telecommunication Drugs for experimentation
Czechoslovakia to Communist China <u>60/</u>	Light industry Power equipment Building materials Synthetic silk Asbestos extraction Chemicals Antibiotics Polarization analysis Engineering Consumer goods
Poland to Communist China <u>61/</u>	Light industry Food industry Port construction Sugar refining Machine building Metallurgy Coal and coke Building materials Chemical fertilizers Sugar-beet cultivation

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<u>Country</u>	<u>Subject</u>
Hungary to Communist China <u>62/</u>	Textile industry Cold storage plants Hydroelectric machine production Coal Iron and steel Chemicals Pharmaceuticals Automobiles Telecommunications equipment Hydrogenation Hygiene Agriculture Geophysical survey
Rumania to Communist China <u>63/</u>	Food industry Crude oil extraction and processing Drilling installations Vaseline production Textile industry Cellulose manufacturing Health protection
Bulgaria to Communist China <u>64/</u>	Magnesite Dyes Soap Lacquer Agricultural inspection methods Cotton processing and cultivation Vegetable and fruit processing and cultivation Seeds for medicinal and agricultural products Tobacco cultivation
Albania to Communist China <u>65/</u>	Construction of minor hydroelectric power stations Cultivation of tobacco and olive plants Experimental crop seeds and cereal seeds Social insurance Public health



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<u>Country</u>	<u>Subject</u>
Communist China to East Germany <u>66/</u>	Textile industry Paper industry Foodstuffs Agriculture
Communist China to Czechoslovakia <u>67/</u>	Food industry Light industry Irrigation equipment Water conservancy Magnesium processing Cigarette processing Procurement and processing of skins and furs Health service Agricultural seeds and plant species Research on contagious disease germs Tobacco cultivation
Communist China to Poland <u>68/</u>	Textile industry Water conservancy Nonferrous metals Tile manufacturing Fluoric acid production Silk production Rugs and carpets Paper Fountain pens Research on tropical equipment
Communist China to Hungary <u>69/</u>	Light industry Food industry Communications Forestry Flood prevention Agriculture

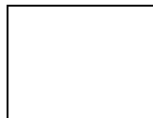
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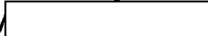
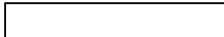
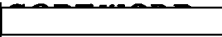
<u>Country</u>	<u>Subject</u>
Communist China to Rumania <u>70/</u>	Chilled metals China Foodstuffs Silkworm culture Raw silk processing Agricultural products: ramie, nonirrigated rice, and fruit trees
Communist China to Bulgaria <u>71/</u>	Porcelain manufacturing Penicillin manufacturing Paper manufacturing Magnesium processing Dyes Soap Silk fabrics Lacquer Cultivation of hemp, fiber, and herbs for medicinal purposes
Communist China to Albania <u>72/</u>	Plaster manufacturing Rock and wood carving Plant seeds and seedlings Rice cultivation and processing

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APPENDIX B

METHODOLOGY

This report is largely descriptive; it attempts to piece together the framework within which economic relations are conducted throughout the Sino-Soviet Bloc and to determine how much central coordination is evident in this field. The information is fragmentary and not well defined. Basic trade data and information on scientific and technical cooperation were taken from published announcements of bilateral protocols which vary with respect to the amount of information released and the extent of commodity breakdowns. These limitations on the basic information are reflected in the analyses of this report. Production specializations for the European Satellites were derived from CIA,  Economic Coordination and Integration of the Soviet Bloc, 1949-56, 1 May 1956,
 



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APPENDIX C

GAPS IN INTELLIGENCE

There is only a limited amount of reliable information available on Soviet Bloc industrial aid, technical assistance, financial credit, and trade contracts with the Communist Far East.

More information is needed on the nature and extent of this trade as well as on the means of negotiating, coordinating, and implementing the trade contracts.

More detailed information is needed on the coordination of planning (both on a national and on an international level), on the precise influence of CEMA, on the role of the bilateral scientific-technical collaboration commissions, and on GUES as it relates to CEMA.

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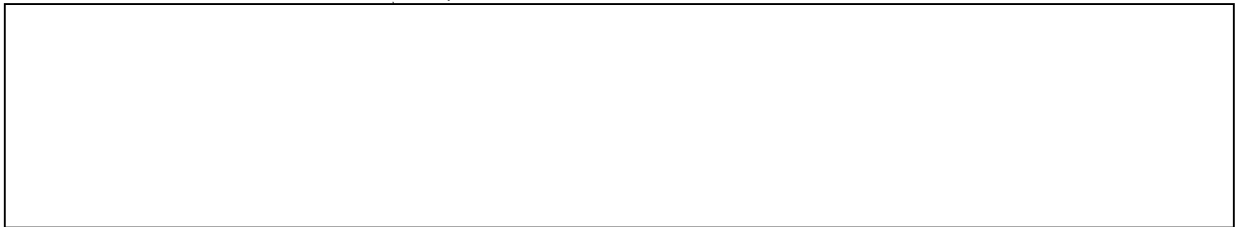
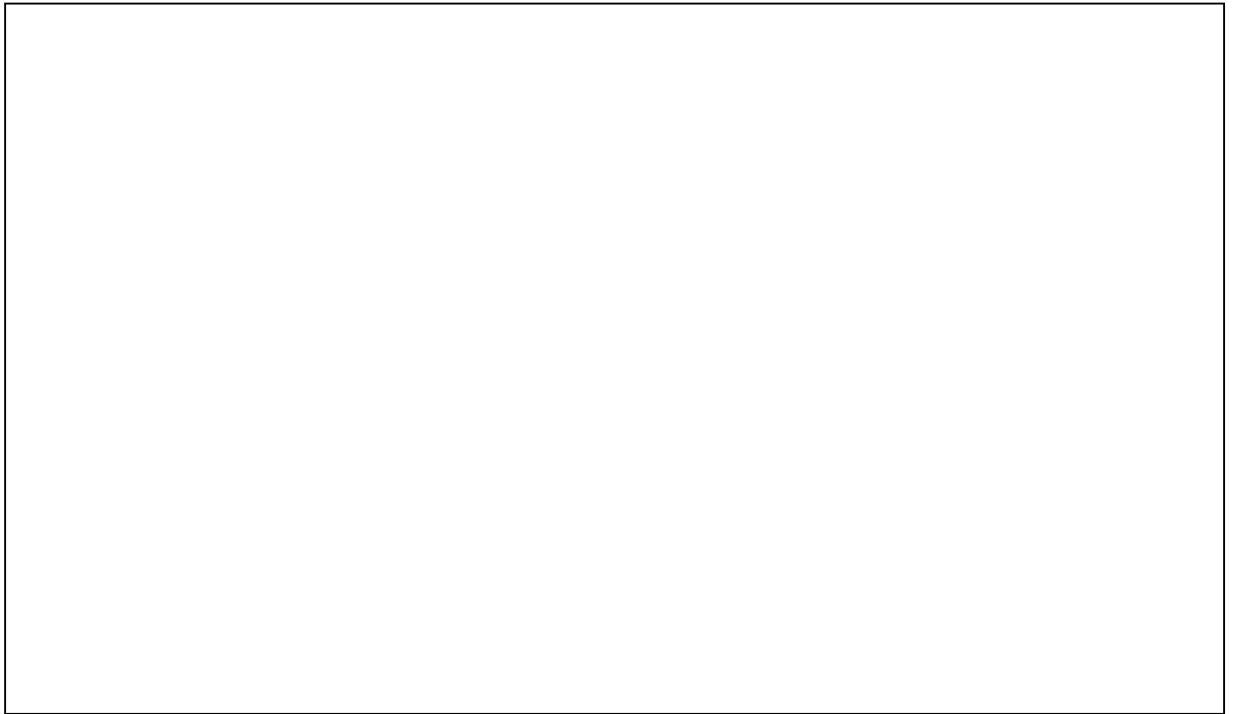
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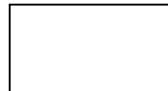
APPENDIX D

SOURCE REFERENCES

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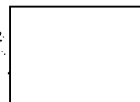


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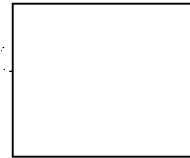




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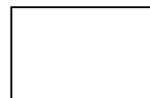


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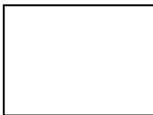
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