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II. BLOC ECONOMIC AND TECHNICAL ASSISTANCE TO NON-BLOC COUNTRIES

A. Assistance Rendered to Date

The USSR is well aware of the high priority which the Asian countries attach to economic development. However, in attempting to exploit the desires of these countries for rapid growth, the bloc has depended for the most part on propaganda rather than concrete aid. The tremendous expansion of the USSR economy over the past 30 years and glowing reports of economic progress in Red China are held up as examples of what can be accomplished without aid under a Communist ideology as contrasted with stagnation and alleged subservience to the West as long as such countries are aligned with the free world. At the same time, propaganda media have for some time stressed Soviet readiness to provide technical assistance and financial purchases of capital goods for underdeveloped countries. The bloc satellites have been following the Soviet lead. These states have accepted general "offers" made by Soviet representatives in international meetings (e.g., SOAFI) had a patenty empty ring, and no development aid from Communist countries of Asia actually materialized until 1954 -- when only a few small gestures in the fields of disaster relief and invitations to study Soviet production methods are classed as aid to development.

The first indication that the Soviet Union might, in fact, change its tactics in the aid field came in 1954 with a pledge of financial aid to the United Nations Technical Assistance Administration. Since that time pledges or contributions have totaled 12,000,000 rubles (37,000,000 dollars at official exchange rate), no part of which is convertible. The contributions are therefore usable only to hire bloc technicians, train UN fellows in the USSR or to purchase bloc supplies and equipment. To date none of the pledged contributions have been utilized, but the program for 1955 includes pledges to Ceylon, India and Pakistan, with most of the expenditures so far for Soviet equipment and supplies rather than the provision of experts or high grants.

During 1954 the USSR and satellites continued to extend invitations for students to study in the USSR and for technicians to inspect Soviet production methods. In addition, a few serious overtures were made to extend credit and send technical advisors to several non-bloc Asian countries. More important examples are indicated below.

Afghanistan: Bloc economic penetration has reached major stages in Afghanistan. Since early 1954 Afghanistan has accepted about 25 million in loans and credits from the USSR. The money is to be used for building two grain warehouses, a flour mill, and a bakery near Kabul, and for a gasoline storage facilities in Kabul, which will support similar facilities already completed in at least three other towns. An agreement in principle has been reached for the construction by the USSR of a pipeline providing from the Soviet border into northern Afghanistan. In addition, several other projects are at present under consideration. All of these projects are to be under Soviet supervision and Soviet materials, and the necessary equipment is to be supplied. Work on some has actually begun. Some of the projects, for example the gasoline storage facilities and the pipeline, are of considerable importance to the USSR.

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Czechoslovakia signed an agreement with Afghanistan in 1954 which included a \$5,000,000 credit for purchase of Czech machinery and other projects. On February 14, 1955, a contract under this credit was concluded for construction of a \$1,500,000 cement plant in Afghanistan.

2. India. The five-year trade agreement between India and the USSR, concluded December 3, 1953, was accompanied by an exchange of letters in which a vague offer of Soviet technical aid was formally accepted.

(a) Following negotiations which began in September 1954, the USSR and India signed an agreement on February 2, 1955, under which the USSR is to build a 1,000,000-ton steel plant in central India. The plant is to be completed by the end of 1959 with a few sections to be finished a year earlier.

The credit granted by the USSR for this project totals \$96,100,000. Repayment for equipment and construction work is to be made over a period of 12 years at an annual interest rate of 2½ percent, with payment to start when the first shipment is delivered. Payment for the engineering survey (\$5,000,000) involves shorter term credit.

The contract contains three legal loopholes or escape clauses. Failure of the Soviet Union to comply with any of these clauses gives the Indians the option to cancel the contract. On the other hand, the same loopholes give Moscow the necessary "out", should it decide to renege on the contract. These escape clauses are (1) Moscow must submit detailed plans within nine months; (2) plans must be approved by the Indians; and (3) costs, including the Indian portion, must not seriously exceed the preliminary estimates of approximately \$210,000,000. India has the option to complete the plant without Soviet participation in case of war or embargo.

The Indian Second Five Year Plan places increased emphasis on industrialization, which in turn will raise the demand for steel. Since current production is about 1,300,000 ingot tons, the Soviet plant will constitute an important addition to existing capacity and increase the Indian chances of meeting their goal of 6,000,000 tons by 1956-57.

(b) The USSR announced that it has signed a contract to send India complete equipment for a machine tool factory and to give the necessary technical assistance in its construction. This report has been denied in Calcutta.

(c) The USSR has sent three mining engineers to study the layout and required equipment for a diamond mine. Moscow has offered to furnish technicians and mining machinery in exchange for the diamonds.

(d) India has also apparently agreed, under the UNIAA, to accept four Soviet engineering professors at the National Institute of Physics in Kharajpur under the UN Technical Aid Program. The USSR also announced its willingness to accept Indian students of humanities and science in Soviet universities under the UN aid program. Since last November, eight Soviet technicians have been working at the Indian Statistical Institute.

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(e) The USSR has also furnished a few technicians and a small amount of equipment for a tractor demonstration project in India.

In addition to Soviet gestures of aid, it is reported that a Hungarian firm has begun construction of a copper wire manufacturing plant at Patiala in Northern India. This plant is to be operated by Hungarian specialists. It was also reported that Czechoslovakia offered to supply India with a steel mill on terms similar to those of the Soviet offer. However, this was denied in New Delhi, and there is no evidence that Czechoslovakia has ever produced a steel mill for either domestic or foreign use; it now imports components of steel plants to increase its own output of steel.

3. Indonesia. A number of bloc offers of credit and technical assistance have been reported. It is possible that many of these offers were released by the Indonesians with the intent of obtaining better terms from the West. Included among these offers is a "substantial loan" to be made by the Soviet Union, according to the Indonesian Ambassador to the USSR.

In early 1954, Czechoslovakia offered a \$16,000,000 loan at 5 percent interest for construction of sugar mills in Java. On February 3, 1955, Indonesia received a 85 million rupiah (\$7,500,000 at the official rate of exchange) six-year credit from East Germany for the purchase of sugar mill equipment. This loan agreement includes the services of 50 technicians for aid in the construction and operation of these mills, a number considered excessive for this purpose. A number of these technicians has already arrived in Indonesia. East Germany will accept repayment in rupiahs, but agreement has not yet been reached on the uses to which such local currency repayments may be put.

As compared with what the US has contributed to Asian development, the Soviet projects are clearly very small, whether measured in terms of money, technicians, or the effect on output and social welfare. Nevertheless, there has been fairly widespread favorable reaction in Asian countries to the agreement to provide a steel mill for India, which capitalizes on the desire for rapid industrialization which most of these countries consider essential for prestige as well as increased output. Moreover, Soviet aid has achieved a considerable propaganda impact in Indonesia and may be the opening wedge for further bloc penetration in that country.

In the case of Communist China, which is itself short of technicians and capital equipment, there is no evidence of any offers to provide technical assistance or credits to any of the free Asian countries. Delegations from the latter countries, including businessmen, government officials and labor leaders, have been invited to inspect various Chinese industrial plants and projects in rural areas, but none of these missions appear to have represented a serious effort to furnish technical advice. China has, on the other hand, provided a substantial number of scholarships for students of Chinese descent living in other Asian countries. However, this program appears to be one of repatriation -- or possibly training of political agents -- and does not have the objective of educating technicians who would return to assist in the development of another country. In a number of the

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free Asian countries it is even questionable whether reentry of such trainees would be permitted in view of the danger that they would engage in subversive activities.

According to a recent NCNA report, there are close to a thousand foreign students studying in Communist China. They come from the Soviet bloc countries, Finland, India, and Indonesia. It is not entirely clear whether the majority of the Asian students are studying technical subjects or Chinese literature, history and art.

B. Prospects for the Future

Since economic deterioration in free Asia is favorable to the extension of Communist influence, the Communists have little to lose by providing some aid in specific cases so long as economic conditions fail to improve. From a position which carries no responsibility, the bloc can merely continue to exploit grievances while relying mainly on its usual prescriptions involving severing of ties with the West -- removal of US bases, and termination of Western trade controls or aid programs -- and substitution of appropriate ties with the bloc. Thus, despite the recent increase in Soviet activities of a technical assistance nature and the capability of the USSR and satellites to expand such assistance somewhat, there is no basis for predicting that a large scale program can or will be offered to free Asia in the near future. To the extent that trained personnel or capital equipment can be spread in the more advanced areas of the bloc, they will for some years be badly needed in the less developed areas, particularly in Communist China. This is not to say that some increase in trade concessions may not occur or that technical assistance and credits for capital goods may not be stepped up on a selective basis to meet particular Soviet internal or foreign policy objectives (e.g. to acquire commodities needed within the bloc, encourage Asian neutralism, etc.). Such developments are, in fact, likely as part of an overall effort to lend plausibility to bloc propaganda for peaceful coexistence and to strengthen the hand of local Communist groups which, under the new political strategy, are attempting to establish united fronts with non-Communists. The likelihood of Soviet assistance would be enhanced in cases where repayment could be made in food or other consumer goods, or strategic raw materials which are in short supply in the USSR. Under existing circumstances, even a limited amount of widely publicized bloc assistance, particularly in the industrial field, poses a threat to Western interests which is far out of proportion to the amounts of money involved or the additions to output which might follow.

Soviet-satellite economic penetration has already reached dangerous proportions in Afghanistan. While bloc success has been very limited in the rest of non-Communist Asia, political and propaganda gains in Indonesia as a result of credits and technical assistance cannot be written off as negligible. Several other Asian countries might be receptive to new Soviet trade or aid offers which they felt would accelerate development. This would apply particularly, though not exclusively, to countries which have adopted a strong neutralist position. If Soviet aid should actually be expanded

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materially, the bloc would be able to make significant propaganda gains as in Indonesia, and could strengthen the position of internal leftist groups.

The prospects of any significant contributions of aid from Communist China to the free Asian countries appear remote since per capita output in China is still close to the level of the most backward countries in the world. Internal capital requirements will for years remain far in excess of available domestic resources. Levels of technical skill are in general no further advanced than in the rest of Asia and the small corps of trained technicians will continue to be at a premium for internal development. Moreover, even if Communist China had greater capabilities for providing aid, there is serious question whether a number of the free Asian countries would be willing to accept any significant number of technicians.

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IV. BLOC TRADE AND TRADE TACTICS IN SOUTH ASIA¹

During recent years the Communist bloc has greatly stepped up its efforts to develop trade ties with the non-Communist areas of South Asia. In the case of the USSR and satellites these efforts give some indications of political motivation. In the case of Communist China the dealings appear to reflect primarily commercial considerations related to China's internal needs. The volume of bloc trade with South Asia has shown very wide fluctuations in year to year dollar volume. No simple overall generalization can be made regarding its importance to the economies of the area. India's trade with the bloc has constituted a negligible and declining proportion of its total trade during the past five years. This is not the case with the remainder of the South Asian countries - Ceylon, Pakistan and particularly Afghanistan, where trade with the Communist bloc is presently a significant proportion of total trade.

A. Volume and Composition of Trade with the Bloc

1. India. In 1954/55 (first 8 months) India's exports to the Sino-Soviet bloc were 0.9% of its total exports, and its imports were 0.7% of total imports. On an annual basis total imports from the bloc in 1954/55 are estimated at 49,902,000 rupees (\$10,479,000) and exports at 40,020,000 rupees (\$9,593,200). Since 1948 trade with the bloc never exceeded 2.9% of total imports and 3.7% of exports in any one year, and the trend has been downward. Communist China has been the largest trading partner, followed closely by the USSR, and in both cases the trade has from year to year been characterized by wide fluctuations. (See Appendix A).

India's exports to the bloc have included raw jute, jute manufactures, tea, hides and skins, iron ore and minerals. Imports have included food grains, machinery and other manufactures. (See Appendix B).

The policy of India is to trade with the bloc countries on the same basis as with other free currency areas. Indian import licenses are issued on a currency basis, and the Government of India does not make any rigid import arrangements.

2. Pakistan. The Sino-Soviet bloc, and Communist China particularly, has been an important market in three of the last four years for Pakistan's exports, particularly cotton and jute. Exports to the bloc in the years (1951-1954) were 12.0%, 22.5%, 11.5% and 14.5% of total exports. The percentages of Pakistan's exports of cotton and jute which went to the bloc were slightly higher. Pakistan cotton is not of a particularly good grade and has difficulty in competing on the world market. Bulk purchases from Communist China thus afford an important outlet.

¹ Countries covered in this chapter include India, Pakistan, Ceylon and Afghanistan.

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Imports from the bloc have been a small portion of total imports and have included coal, grain, cotton textiles, machinery, and other manufactures.

3. Ceylon: The only important trade tie Ceylon has had with the bloc is with Communist China, involving exports of Ceylon's rubber and imports of Chinese rice. This trade became significant in 1952 and for the years 1952-1954 exports to China were 8.70%, 16.30%, and 12.92% of total exports; imports from China in these years were 1.93%, 13.00%, and 11.33% of total imports. In 1953, almost 70 percent of Ceylon's crude rubber exports and 8 percent of its exports of coconut oil were taken by the bloc while the bloc supplied approximately two-thirds of Ceylon's rice imports.

4. Afghanistan: Because of geographical and other factors Afghanistan has normally had important trade relations with the Soviet Union. However, the sharp increases in trade in the past few years, coupled with a technical assistance program, appear to be part of an overall pattern of Soviet political and economic penetration and do not reflect purely commercial considerations.

Afghanistan ships more than half of its wool and about half of its cotton (its principal export commodities) to the USSR. The USSR is the source of the greater part of Afghanistan's gasoline, diesel oil, hardware, sugar, and cement. Estimates place the Soviet share in total Afghan trade at 20% in 1953 and 35% in 1954.

B. Agreements and Trade Tactics

The South Asian countries have 11 trade agreements with the bloc. Afghanistan accounts for 2, India for 8, and Ceylon for 1. The trade and payments provisions of these agreements are summarized in Appendix C.

The USSR concluded a five-year trade agreement with India in December 1953 which was widely described in Communist propaganda as an important step in promoting closer relations between the two countries. In fact, however, the agreement does almost nothing to alter existing trade arrangements; Soviet traders must compete on price, quality, etc. in the active Indian market where Western firms are well established. The agreement does permit the establishment of new Soviet trade missions in Calcutta and Bombay, and includes general offers of Soviet credit and technical assistance. Much propaganda has been issued regarding Soviet interest in selling industrial machinery to promote development and free India from dependence on traditional colonial exploiters. On several occasions lavish exhibits have been staged at Indian trade fairs. However, inquiries by prospective purchasers did not succeed in producing any significant offers to export goods on display. Soviet bluff in this regard has aroused resentment in South Asia.

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A few instances of the use of trade tactics (e.g. sales below prevailing prices) to finance the Communist party of India have been revealed, but the total extent of such operations is not known.

It is of some interest that Satellite countries and Communist China have also included both the provision of new trade missions and some reference to technical aid in their latest trade agreements with India. As a result, a number of Satellite trade delegations have appeared in India in 1954 making speeches and advertising their products. Despite all this, Indian trade with the Soviet bloc in 1954 remained at close to the 1953 level, which was the lowest in the post war period.

Pakistan has had trade agreements with several bloc countries at different times, but these agreements, as in the Indian-bloc agreements, have been non-obligatory in nature with neither volume nor values specified. Actual trade has varied widely. The agreements with the Satellite countries, China and with the Soviet Union were allowed to lapse in 1953 and have not as of this date been renewed.

1954 witnessed a considerable amount of commercial advertising in the Pakistan newspapers by the Satellite countries. This however has as yet had little discernible effect on trade.

On December 18, 1952, Ceylon concluded a five-year agreement with Communist China which has been the basis for the recent expansion of trade. Fifty-thousand tons of rubber were to be exchanged annually for 200,000 tons of rice. This had been preceded by a smaller deal for the exchange of the same products in October 1952. The political motivations underlying the Chinese action in concluding this agreement were obvious from the premium prices offered Ceylon for its rubber, the favorable prices charged Ceylon for the Chinese rice and the fact that the rubber shipments would represent the first major breach of the UN Strategic Embargo Resolution of May 1951.

Under the 1953 protocol Ceylon received a net premium of \$20,000,000 (about 20%) as compared to an equivalent exchange of commodities at the current world market prices. The 1954 protocol was almost as favorable, with an estimated \$16,000,000 premium. Both the 1953 and the 1954 commitments were delivered as scheduled. In October 1954 an agreement was signed for 1955.

The most important single development in Afghan trade has been the increase in Afghan-Soviet barter transactions. Soviet prices have been so favorable in the barter agreements so far signed as to indicate non-commercial motives. The barter agreement signed in December 1953 provided for \$25,000,000 of trade as compared to \$16,000,000 in the 1952 agreement and the agreement signed in December 1954 calls for \$30,000,000 of trade in 1955.

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C. Prospects for Future Trade

South Asian countries are quite willing to accept commodities from Soviet Russia, China and Satellites provided they are offered on a continuous basis and on favorable terms. USSR, Chinese and Satellite trade expansion in the South Asia area depends largely on their ability and willingness to compete with other nations established in this market.

Any significant expansion of bloc trade with India would involve the usual difficulties any newcomer faces in attempting to enter an established market on a competitive basis. On top of this is a lack of confidence of the Indian importer as to the dependability of the bloc as a continuing source of supply particularly regarding the provision of spare parts and training in the use of equipment. Finally and most important, there is no evidence up to now that the bloc is prepared to allocate a sufficient volume of industrial machinery to support a significant export drive for the Indian market.

It is unlikely that the Government of Pakistan, which purchases directly a substantial share of the country's imports and allocates the exchange for private imports, is interested in expanding trade with the bloc unless such trade can be of assistance to its development programs. Over two-thirds of Pakistan's imports from the bloc in the past two years have consisted of cotton yarn, piece goods, and matches -- products which are being manufactured increasingly in domestic factories. Whether the bloc countries, and in particular Communist China, will continue to be an important or even expanding market for the key exports of Pakistan will depend on future world demands for Pakistan cotton and jute and on whether Communist China develops a policy of coming into the Pakistan market on a regular and continuing basis.

Whether the high volume of trade between Ceylon and Communist China will continue through the five years covered by their agreement will depend in large measure on world market conditions for rubber and rice and in part on whether the Chinese can develop more satisfactory alternative sources for their rubber needs. In 1954, due to the good rice crop in Ceylon, the Government had difficulty in disposing of the Chinese rice. In 1955 rising world market prices for rubber, which have virtually eliminated the premium that Ceylon had been receiving on rubber exports to China, are again causing Ceylon to consider the desirability of terminating the agreement.

Soviet trade with Afghanistan can be expected to expand since it appears to be part of an overall pattern of political and economic penetration. The continuation of present weakness in the world market demand for Afghanistan's chief export caracul wool will be a factor in determining the future course of Afghan-Soviet trade. At present the prospects of increasing dependence on the Soviets, both in its trade and in its development efforts raise a serious possibility of Afghanistan falling into the Soviet orbit.

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