

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE N°

182

COPY

ORIGINAL: ENGLISH
24th March, 1958

NATO CONFIDENTIAL
DOCUMENT
AC/89-D/20

COMMITTEE ON SOVIET ECONOMIC POLICY

THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC⁽¹⁾

Note by the International Staff

Summary

After a period of relative quiet in the first half of 1957, the communist countries have intensified their programme of penetration. During the past six months, the Sino-Soviet bloc has lent between \$400 and \$600 million to underdeveloped countries. This brings to \$1.9 billion the total credits and grants for military and economic purposes given in the past four years, of which over one-third has actually been drawn upon.

2. The Middle East remains the prime target of the communists, but activity has been increasing on a wide front. There have been large-scale loans to Syria and Egypt⁽²⁾, and a smaller one to Yemen. However, the attempt made to buy the Sudanese cotton crop has been so far unsuccessful. In Asia, Ceylon and Burma have received loans, while India is being granted some short-term credits from satellite countries. The Indian Parliament has recently ratified the loan offered by the USSR in 1956.

3. The USSR has made offers to many countries in her attempt to broaden the economic offensive. The Russian Delegate to the Afro-Asian Solidarity Conference in Cairo in December 1957 is reported to have offered loans to all of the countries represented. However, it seems probable that the offer can be interpreted as propaganda. The Soviet bloc also offered ships to Indonesia for inter-island transportation, when Dutch ships were withdrawn following the seizure of Dutch holdings. Bulganin's offer of economic assistance to all Latin-American countries in 1956 was repeated by Khrushchev in an interview last November, and several of those countries are now showing some interest.

(1) This report brings up to date information contained in C-M(57)116, issued on 21st August, 1957.

(2) See C-M(57)147, 10th December, 1957.

4. Apart from these penetration activities, trade between Eastern and Western Europe continues to expand.

5. Aid from the Sino-Soviet bloc to the under developed areas still remains only a small fraction of similar aid given by the West. Western countries have been lending and donating to, or investing in, underdeveloped areas about \$3.5 billion per year(1). Nevertheless, the Sino-Soviet bloc, by singling out countries for aid and by concentrating on spectacular projects, reaps political dividends far out of proportion to its outlay of funds. By this selective approach, reinforced by a programme of propaganda, including trade fairs, the Soviet bloc has succeeded in gaining favour with some previously uncommitted nations. Communist trade with countries receiving aid has increased sharply, tying them closer to the Sino-Soviet bloc.

6. It is apparent that the economic offensive is not a heavy burden to the Sino-Soviet bloc and could be expanded. The arms given have a book value of perhaps \$400 million, but have been usually taken from obsolescent stocks. No more than \$200 - \$300 million of the economic credits have been drawn upon, and this represents less than one-tenth of one per cent. of the USSR's annual national output. In addition, most of the aid granted is in the form of loans, and the communist countries will receive valuable raw materials in exchange.

7. The USSR has made the greater part of the loans. These are normally not given in transferable currency, are at low interest rates (usually 2½%), with terms of twelve years or more, and with the option of repayment in local goods or currency. Some of the European satellites, on the other hand, have been issuing loans on a more commercial basis, mainly for the purpose of encouraging the underdeveloped areas to purchase machinery. Communist China has also participated in lending activities, especially to Asian countries. China and the USSR have granted a joint loan to Burma, which suggests that China, despite a shortage of capital, is determined to exert her influence in Asia.

8. Attempts by the USSR to co-ordinate economic activities abroad of the entire Sino Soviet bloc have not been very successful. The re-organization, in July 1957, of the State Committee of Foreign Economic Relations appears to have been mere window dressing. Pervukhin, the former head of state planning, was placed in charge of this Committee, but has recently been named as Soviet Ambassador to East Germany.

9. Much greater emphasis is now being placed on aid for economic rather than military purposes. All of the recent credits reported have been for economic assistance. The technical aid programme associated with these loans has become impressive - there

(1) OEEC C(57)240, 12th December, 1957

may be close to 2,000 Soviet bloc technicians serving in underdeveloped areas at the present time. There are still some military advisers in the countries which have been supplied with military aid in the past. The communist bloc still derives economic advantages from this military aid, since it is still being paid for in raw materials.

10. The Soviet bloc has shown great interest in oil operations in underdeveloped areas. There is an obvious communist interest in disrupting the oil supply to Western Europe from the Middle East, mainly by extending influence over those countries controlling the supply lines. The creation of the United Arab Republic has linked together the two countries exercising the greatest control over the transport of oil. At the same time, Russian propaganda has also been aimed at the oil-producing states, with a view to undermining the popularity of the present regimes. Biased comparisons are made between the profits of the oil companies and the royalties they pay out, and the oil companies are pictured as exploiters. Russia has offered to build nationalised oil industries in underdeveloped countries. Even if this propaganda does not wholly succeed, the pro-Western governments of the Middle East oil countries may be forced to ask for larger shares of oil revenues, to ward off pressure from their people for nationalisation.

11. The Soviet bloc has offered technical assistance and equipment to many countries now prospecting or hoping to prospect for oil, including Yemen, Syria, Egypt, Afghanistan, Ceylon and Indonesia. Czechoslovakia is building an oil refinery in Homs, Syria, and it has been reported that Brazil and Argentina may be seeking Soviet aid for developing their petroleum industries.

12. Russia, with a growing surplus of oil, has emerged as a major supplier to a number of countries, especially those with shortages of hard currency. In the Middle East, Egypt and Afghanistan receive more than half of their oil supply, the main source of energy, from the USSR. Morocco will receive oil from Russia under the terms of a recent trade agreement. Uruguay has been offered oil on favourable terms. Russia has been a major supplier to such countries as Finland, Iceland and Sweden.

13. A description of Sino-Soviet bloc moves by country is given in the Annex.

Palais de Chaillot,
Paris, XVIIe.

ANALYSIS BY COUNTRIESMiddle East

1. A complete review of developments in Middle Eastern countries was issued in December, 1957(1). It will be recalled that the USSR had completed negotiations in October with Syria for a \$162 million loan to assist in Syria's current seven-year plan. The loan can be used in any country of the Soviet bloc and repayment will begin after all of the projects are completed. It has also been unofficially reported that Czechoslovakia will match the USSR offer, but no confirmation is available. Czechoslovakia has agreed to postpone for four years repayment on the arms deal with Syria made in 1956(2). Russia has agreed to lend Egypt about \$175 million for economic development. She is reported to have offered to Egypt a \$14 million loan in hard currency, to be repaid in one year and bearing interest at the current bankers' rates. Czechoslovakia has offered \$56 million for the same purpose, while East Germany has given a \$20 million credit for current purchases. Egypt is primarily interested in the development of her oil and other mineral resources. The Russian loan will cover about one-third of the foreign exchange costs of the projects planned by Egypt under her Five-Year Plan. It does not appear that the proclamation of the United Arab Republic will cause any abrupt economic changes, and the Russians have not given any indication that they will modify the loan arrangements.

2. Yemen has accepted a loan of 70 million Swiss francs from communist China for the purchase of equipment goods. The Russian ambassador to Egypt has reportedly offered a 15-year loan for \$25 million to Yemen for economic development. The Crown Prince of Yemen has recently taken a trip through Eastern Europe, and some discussions on economic relations appear to have taken place. Rumania has just concluded an agreement with Yemen, providing for the exchange of diplomatic representatives, commercial exchanges and technical aid. The technical aid is probably connected with the possibility of the exploration for oil in Yemen.

3. Soviet attempts to exploit the weak sales position of Sudan cotton seem to have failed. Following a reduction in prices and export tax, sales of cotton to the West increased greatly, and much of the surplus has now been sold. The Sudanese have contracted for an irrigation plant, valued at \$100,000, to be supplied by East Germany.

(1) See C-M(57)147.

(2) Payment was to have begun three years after the arms were delivered.

Africa

4. Morocco has recently signed trade agreements with China, Poland, Bulgaria, Czechoslovakia and the USSR, providing for some increase in trade with these countries. Part of the Russian deliveries will consist of crude oil, sufficient to supply 5% of Morocco's needs. In 1956, the Sino-Soviet bloc accounted for less than 4% of Morocco's total foreign trade. Tunisia has signed trade agreements with Bulgaria, Czechoslovakia, Hungary and the USSR. These represent her first commercial contacts with the Sino-Soviet bloc. Liberia has again turned down an offer for a Soviet trade agreement in the autumn of 1957. Ghana has recently established diplomatic relations with the USSR. No commercial agreement has been signed, but the Russians have more than doubled their purchases of cocoa, and probably take about 13% of Ghana's total exports.

Asia

5. Sino-Soviet bloc economic activity in Afghanistan continues at a high level. Perhaps one-half of Afghanistan's foreign trade is with the communist countries. There is some petroleum exploration being conducted by the Russians, under the terms of the \$100 million loan granted in 1956. However, it has recently been reported that Afghanistan will not draw further on the loan, unless the Russians agree to pay for local as well as foreign exchange costs of development projects. A two-year trade agreement has recently been signed with communist China.

6. Burma's economic relations with the Sino-Soviet bloc have been placed on a new basis. The barter deals arranged in 1955, when Burmese rice was not selling well, turned out unsatisfactorily and those with China, Poland and Bulgaria have been ended. Trade will henceforth be conducted in sterling. Burma had built up a credit to the equivalent of \$18 million in its barter trade with the communist countries. In order to use this credit, Burmese business men were issued with import licences for goods from the Sino-Soviet bloc, but little business has so far been done. It is reported that the goods offered have been of poor quality and high priced. Burma has tried unsuccessfully to arrange a multilateral settlement of her credits with the countries of the Soviet bloc. Nevertheless, the communist countries have made some headway in Burma. The Russian agricultural advisers have been achieving successes in their projects; the USSR, Czechoslovakia and East Germany have opened display showrooms in Rangoon; North Korea has signed a trade agreement with Burma; and it is reported that the USSR and communist China are granting a joint credit amounting to \$6.5 million, to be used for building some dams and factories. It is of interest to note that this loan is almost exactly equivalent to the Burmese credit built up from its past trade with the bloc.

Ceylon

7. The five-year trade agreement with China, which expired at the end of 1957, has been renewed for another five years. The new agreement contains features similar to the old one, i.e. a barter of Chinese rice for rubber from Ceylon. In addition, it is expected that other commodities will be traded, including cotton textiles, steel, cement, tyres and machinery from China, while Ceylon will provide coconut oil. Unlike the old agreement, the new arrangement does not provide for China to pay a premium for the rubber. Instead, China will provide £5.5 million in free aid, to be used for replanting rubber plantations. There are unconfirmed reports that China will also provide a textile mill. Czechoslovakia has offered assistance to Ceylon for its nationalised bus services and for a sugar refinery, while Hungary has offered to build a telephone exchange. Russia bought tea from Ceylon for the first time since the war, has just signed a new trade agreement, and is to provide help in clearing some jungle. It is also reported that the USSR has been asked to assist in the exploration for oil in Ceylon. It was further reported on 25th February 1958 that Russia has lent \$30 million to Ceylon for an irrigation scheme, and for the construction of some factories. Terms call for repayment in twelve years at 2½% interest.

India

8. In November 1957, India signed a loan agreement with the USSR for 500 million roubles, to be repaid in twelve years at 2½%. The loan will be used for a number of projects, including a machinery plant, a thermal power plant, an optical glass factory, and the development of some coal fields. This loan has been under negotiation since November 1956. Drawing upon it will begin in 1959. On the other hand the Russians have turned down an Indian request for an additional \$31 million for the construction of the Bhilai steel plant being built under a previous Russian loan. The Russians have also refused to postpone repayment of this loan by three years.

9. The shortage of foreign exchange in India has prompted her to arrange a number of schemes calling for deferred payment for imports, or for payment in local currency. East Germany and Czechoslovakia will provide capital goods under such arrangements. The Czechoslovakian credit is for 24 million and will be used to finance a foundry. India's trade relations with Poland continue to expand, and she is now Poland's second largest customer. The two countries are co-operating in nuclear energy research, and a Polish trade centre was recently opened in Madras.

Indonesia

10. The Sino-Soviet bloc has not made many moves in Indonesia since the seizure of the Dutch holdings. However,

NAFO CONFIDENTIAL

-8-

ANNEX to
12/19-17/20

The USSR and Poland have offered to provide ships, while East Germany has promised manpower for running the Indonesian airlines. Acceptance of the offer of a loan for \$100 million, made by the USSR in 1956, is still being debated in the Indonesian Parliament. It is not certain how the loan would be used, but it appears that it would cover, inter alia, payment for 400 jeeps, which have already been received by Indonesia, and the exploration of oil-fields. The Czechoslovaks are reported to have offered to build an automobile assembly plant in Sumatra and a cigarette factory in Malang, Java. Indonesia has signed a trade agreement with Hungary, and has purchased some rice from North Vietnam. Communist China has offered a \$20 million loan to Indonesia, for building textile factories.

Pakistan

11. A trade delegation from Pakistan, in June 1957, visited the USSR, Poland, Czechoslovakia and Yugoslavia, to discuss future trade. It is reported that Pakistan was anxious to sell cotton, jute, hide and skins, and may increase sales to Russia and China. Both the USSR and Czechoslovakia are actively promoting trade in Karachi.

South-East Asia

12. The Chinese agreement of 1956 to grant Cambodia \$22 million is being implemented. The Chinese have delivered over \$6 million worth of cement, steel, cotton cloth and yarn, and raw silk. The proceeds of the sales of these goods are being used for purposes of development. Poland has signed a trade agreement with Cambodia, and the USSR has agreed to build a hospital and to give her assistance in agricultural research. A proposed deal by Thailand to sell rice to China has not materialised, the Chinese feeling that the price was too high. Japan has signed trade, payments, commerce and navigation agreements with the USSR, but it is not expected that there will be much trade.

Latin America

13. After a period of unsuccessful activity by the Sino-Soviet bloc, new developments seem to be taking place in Latin America. Trade reached a peak in 1955, declining thereafter, as the bilateral arrangements of the communists proved unsuitable to most Latin-American countries. A trade mission from China visited Chile, Uruguay, Argentina and Brazil in 1957, achieving little success. However, early in 1958, it was reported that Argentina, Brazil, Colombia and Uruguay were seeking assistance from the Soviet bloc for the development of fuel industries.

14. Argentina is currently attempting to use credits, amounting to \$30 million, arising from her bilateral agreements with the Soviet bloc. She has signed trade agreements with Poland, Hungary, Czechoslovakia and the USSR. In January 1958, an Argentine mission

NAFO CONFIDENTIAL

-8-

visited Eastern Europe, seeking industrial equipment.

15. Brazil sold 10,000 tons of sugar to China in October 1957. It has been reported that the USSR has offered large-scale aid to the Brazilian state monopoly - Petrobras - which handles the development of the petroleum industry. Poland has provided steel rails, to be used for transporting Brazilian iron ore.

16. Colombia which is concerned over her surplus of coffee, has been conducting trade talks with the USSR. Russia and Rumania have made offers to sell oil below world prices to Uruguay. To assist Uruguay in her payments, attractive credit terms have been made. It has also been reported that Uruguay may arrange a triangular deal, delivering surplus wool to China and receiving rail equipment from Czechoslovakia. Russia has been the largest buyer of Uruguayan wool at recent auctions. Cuba has continued to sell large amounts of sugar to the Soviet bloc at world prices. In 1957, the USSR purchased 350,000 tons, and East Germany 35,000 tons. These accounted for about 7% of Cuba's total sugar exports. A further 100,000 tons of sugar was purchased by the Russians in January, 1958.

Europe

17. Yugoslavia's economic relations with the Soviet bloc have become closer in the past year. Although she had no trade with the Soviet bloc from 1949 to 1955, about one-quarter of Yugoslavia's foreign trade is now being conducted with the bloc, and more assistance projects are being undertaken. These include the \$175 million aluminium project in Yugoslavia, to be financed jointly by Russia and East Germany, and to be started this year. It had previously been indefinitely postponed, during a cold spell in Yugoslav-Russian relations. As part of the same project, there is to be a fertilizer plant and an industrial complex of coal mines, gas works and thermal power plant. Yugoslavia has renewed discussions with Rumania about joint development of the Danube, and with Hungary on power plants, ports and banking. She has also renewed trade agreements with the USSR, Poland, Czechoslovakia and Rumania, and higher levels of trade are expected.

18. Trade between Western Europe and the Sino-Soviet bloc continues to expand, and was about 20% higher in 1957 than in 1956. The United Kingdom had a substantial increase in trade with the USSR. France has signed a trade agreement with Russia for 1958, calling for a 30% increase over 1957. Trade negotiations of the Federal Republic of Germany with the USSR have been tied to the question of repatriating German prisoners of war. The Federal Republic has signed a trade agreement with China, allowing for some increase in trade. Austria and Finland have also signed new agreements with the USSR. France and the United Kingdom have sent delegations to China. Sweden has

NATO CONFIDENTIAL

-10-

ANNEX to
AG/89-D/20

signed an agreement with China, providing for most-favoured-nation treatment, and multilateral arrangements for settling balances. Spain has signed trade agreements with Poland, Czechoslovakia and Rumania. These are her first commercial agreements with communist states. Turkey has received a loan from the USSR for building a glass factory and a caustic soda and calcium plant. The Czechoslovakians are reported to be achieving successes in selling tractors to Greece. Prices are lower, delivery is rapid, servicing is good, and credit terms are more favourable than those offered by western firms.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

NATO CONFIDENTIAL