

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

NATO UNCLASSIFIED
and
PUBLIC DISCLOSED

EXEMPLAIRE
COPY

N° 393

ORIGINAL: ENGLISH
21st August, 1957

DN 287
30-6-67

~~NATO SECRET~~
DOCUMENT
C-M(57)116

THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC

REPORT BY THE COMMITTEE ON SOVIET ECONOMIC POLICY

Note by the Secretary General
and Chairman of the Council

Attached is a report on the Economic Offensive of the Sino-Soviet Bloc forwarded by the Committee on Soviet Economic Policy.

2. This report has been prepared in accordance with the Council's instruction that periodic surveys of Soviet economic moves vis-à-vis the outside world should be made by the International Staff on the basis of information supplied by Delegations and that these surveys should cover, not only the USSR, but also all countries of the Soviet bloc and Communist China. (1)

(Signed) P.-H. SPAAK

Palais de Chaillot,
Paris, XVIe.

(1) C-M(56)78
C-R(56)32

NATO SECRET

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC

TABLE OF CONTENTS

	<u>Page</u>
Summary	5
I. Political and Economic Background	7
II. Developments in Trade	9
III. Methods Employed	11
(i) Credits	12
(ii) Trade Agreements	13
(iii) Technical Aid	14
(iv) Trade Fairs	14
(v) Concentration on Specific Countries	15
IV. Future Possibilities	15
Annex I - Developments in Various Areas	17
Europe	17
Iceland	17
Austria	17
Finland	17
Sweden	18
Greece	18
Turkey	18
Yugoslavia	18
ECE	19
The Middle East and Africa	19
Egypt	20
Syria	21
Iran	21
Israel	21
Lebanon	22
Jordan	22
Saudi Arabia	22
Iraq	22
Yemen	22
Sudan	23
Ethiopia	23
Libya	23
Liberia	23

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

	<u>Page</u>
South and South-East Asia	23
India	23
Afghanistan	24
Burma	24
Indonesia	24
Pakistan	25
Ceylon	25
Nepal	25
Malaya	25
Cambodia	25
Thailand	25
Laos	25
Latin America	25
Argentina	25
Brazil	25
Uruguay	25
Cuba	25
Ecuador	25
Chile	25
Annex II	29
Table 1 Sino-Soviet Bloc Foreign Trade - Selected Years 1938-55	29
Table 2 Trade Turnover of Sino-Soviet Bloc with Outside World by Areas 1953-55	30
Table 3 Credits Extended by Sino-Soviet Bloc to Underdeveloped Countries 1954-56	31
Table 4A Soviet Union Economic Assistance to Bloc 1946-57	32
Table 4B Soviet Union Economic Assistance to Bloc - January 1956 - June 1957	34
Table 5 Trade and Payments Agreement of Outside World with Sino-Soviet Bloc 1953-55	36
Table 6 Trade Fairs attended by Sino-Soviet Bloc 1951-55	37
Table 7 Sino-Soviet Bloc Share of Trade of Specific Countries 1953-56	38

THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC

Summary

The economic offensive of the Sino-Soviet bloc poses a major political and strategic threat to the outside world. Since 1953, advances have been made in the Middle East, in Asia, and in Latin America; communist trade with underdeveloped areas has nearly doubled, and almost 1.5 billion dollars of aid have been granted, of which over 1 billion dollars were non-military credits. Total trade with the outside world has increased by about one-half during this period, while the number of trade agreements has almost doubled. Two-thirds of the new agreements have been with underdeveloped countries. Despite this appreciable expansion in Sino-Soviet bloc foreign trade, the total volume of trade is still relatively small. But the smallness of the total understates the impact of the trade drive, which is designed so as to have the maximum political effect and concentrated on countries who are in need of economic assistance and trade outlets. Since the autumn of 1956 the only new credit granted by the Soviet bloc has been a small loan to Syria. However, aid has been offered to Turkey, Nepal and Morocco, and communist trade with the outside world continues to increase.

2. The prime aim of communist foreign economic policy is undoubtedly the weakening of Western influence in strategic areas of the world, by attempting to gain sympathy for the communist cause from nations that are pro-Western or neutral in their foreign policies. Recent events in the Middle East demonstrate this clearly.

3. The techniques followed by the Soviet group in pursuit of their aims are various. Offers of long-term credits at low rates of interest are made, especially by the USSR, to underdeveloped areas for the purchase of capital goods from the Soviet bloc. Arrangements are made for the bulk purchasing of raw materials, usually on a bilateral and barter basis, tying up a significant portion of the export surplus of underdeveloped countries for long periods of time. The prices paid by the Soviet countries are often above world market quotations but, because of the barter nature of the trade and the difficulty of assessing the world price of Soviet bloc exports, it is not easy to decide whether the resulting terms of trade offer any real advantage to the underdeveloped areas. Technical aid often accompanies the deliveries of capital goods, while students from some underdeveloped areas are trained in communist countries. In some areas, the Soviet countries, notably the USSR, have delivered arms against the future delivery of raw materials; in the Middle East this action has had much more spectacular results than the granting of economic assistance. Trade fairs are used as a tool of economic policy, and great attention is paid to the publicity value of exhibits.

4. Though political and strategic considerations are doubtless the main reason for these activities, at least by the USSR, they are nevertheless in tune with overall economic

developments. Intensive industrialisation in the Soviet bloc has created a need for more industrial raw materials and at the same time has made available a larger volume of manufactured goods. This has made trade with underdeveloped areas more attractive to the Soviets. The economic motive has been more important for the European satellites than for the USSR.

5. The satellites have been the main traders for the Sino-Soviet bloc, while the USSR has granted the major share of the loans. Although China is only in an early stage of economic development, she has given support to the economic offensive by expanding her foreign trade, especially in the Far East. She has also given two small grants of aid to neighbouring countries.

6. Trade prospects between the Sino-Soviet bloc and the outside world are not clear at the present time. The difficulties in the European satellites have caused the production targets for the five-year plans to be lowered; it is unlikely that most of these countries will be able to grant large credits to underdeveloped areas, although the USSR may use them as a front for such transactions. The economic difficulties of the Eastern European satellites have in fact forced the USSR to grant these countries large-scale loans. This may reduce Russia's willingness to grant credits to underdeveloped areas. However, lack of opportunity seems to account for the fact that no large credits have been granted in recent months. Also consolidation of the gains secured by Russia in its economic offensive may not require outlays as large as those of recent years.

7. On the other hand, Soviet industrial production is likely to continue to expand rapidly, even taking into account the difficulties which recently led to some slackening in the pace, and to provide a growing quantity of manufactured goods. The Soviet Union will require greater amounts of raw materials to support this expansion in industry. The monopolistic and political character of Soviet economic organizations will aid in the bulk purchasing of raw materials, as well as in the selling of capital goods on credit terms. At the same time, the rapidly increasing numbers of scientists and engineers graduating yearly in the Soviet Union will be available to service capital goods sold to underdeveloped countries, and to participate in programmes of technical assistance.

8. The trade offensive does not appear to have slowed down after the Hungarian revolt. Though difficulties may be encountered by the Soviet Union in expanding trade with underdeveloped areas, the political dividends which this policy has paid hitherto have been so great that a continuation of an active economic offensive should be expected. The cost of the offensive has hitherto been quite small - Soviet aid is expected to amount to 200 million dollars in 1957, i.e., about one-tenth of one percent of the Soviet national product. (1)

(1) This percentage is based on the estimate of the GNP of Russia in dollars which was made in document AC/89-D/11.

The European satellites will be driven by economic pressures to expand their trade with both underdeveloped areas and Western Europe. China's foreign trade increased rapidly until 1955, but there was a slight decline in 1956, and official Chinese Communist sources forecast a further decline in 1957. Relaxation of the trade embargo by some western countries may alter the pattern of China's foreign trade to some extent, but it is not expected to affect the level of trade significantly since China's holdings of Western currencies are small, and it appears unlikely that she will be able to increase her exports to the West sufficiently to pay for imports substantially above the present level.

Political and Economic Background

9. Before World War II, the Soviet Union imported capital goods, with the intention of building up domestic industry to a point of complete self-sufficiency. These imports were paid for largely by exports of grains and industrial materials. It was never the intention of the Soviet planners to rely indefinitely on "capitalistic" sources of supply, particularly in vital industrial sectors. Following the end of World War II, the Soviet Union reorientated the economies of its satellites towards greater trade with the Soviet bloc. These countries, which had previously exported mainly consumer goods or raw materials, reduced their Western European trade drastically. Before World War II, trade among the present countries of the Soviet bloc amounted to about 10% of their total foreign trade. By 1948, trade between these countries was about 40% of their total foreign trade, even before free world controls on exports of strategic goods had been instituted. By 1953, the proportion of intra-Soviet bloc trade had reached three-quarters of the total trade.

10. The turning point in Soviet foreign economic policy may be marked in 1953, following upon the death of Stalin and the emergence of the new leadership with its policy of peaceful co-existence. Indications of the impending change, however, were seen earlier when the USSR convened an International Economic Conference, primarily of Western businessmen, in Moscow in April, 1952.

11. The factors which led to the adoption of the present policy were various. The Soviet acceptance of the fact that the two leading powers had reached a nuclear stalemate gave renewed importance to the use of non-military means in the achievement of communist aims. The lessened fear of war made large-scale economic trading more acceptable to Soviet leaders, while the original Malenkov "soft policy" resulted in the import of consumer goods from Western Europe. Lastly, long-term developments within the Soviet economy itself fitted in with a policy of expansion in trade.

12. The Soviet Union had, traditionally, enjoyed a surplus of industrial and agricultural raw materials and had been deficient in capital goods. The process of intensive industrialisation of the Soviet economy created a greater need for raw materials. At the same time, agricultural raw materials became

arcer since the agricultural programmes had not met with success. The strides made in industrial development in the Soviet Union, shifts occurred from the primary toward manufacturing industries resulted in a greater availability of manufactured goods. It is estimated that certain parts of the Soviet Union's heavy industry compare favourably both in quality and in efficiency with those of the United States. This availability of manufactured goods provided a basis for trade, particularly since there is evidence suggesting that capital goods, notably steel products, are being produced relatively cheaply in the Soviet Union as compared with underdeveloped areas. Although the major exports of the USSR to underdeveloped areas have been arms, oil and wheat, recent trends indicate the growing importance of exports of capital goods.

13. It is fairly clear that economic motives for developing foreign trade are more pressing for the Soviet satellites than for the USSR itself. While the proportion of Soviet foreign trade to national income is not significant, amounting to perhaps 3% in 1955, the Eastern European satellites have a dependence on trade which is even greater than it was before the post-war period of industrialisation. This situation has been brought about by a number of factors: the shift in composition of industrial output toward heavy industry, the consequent cutback in consumer goods production, the failure of agricultural production to expand efficiently, and the forced export of certain materials to the Soviet Union. The post-war economic integration of the Soviet bloc has in reality meant only a shift in the trade of the satellites from Western Europe to the Soviet Union. However, available evidence suggests that Russia cannot provide for all the needs of the satellites, and trade with the West remains essential to them. The position of foreign trade in the Chinese economy is not too clear. China's total foreign trade (of which the Soviet bloc takes four-fifths) has increased rapidly and it is uncertain how much of any future increases will be with the outside world. China's great need is for capital goods imports which have been supplied mainly by the Soviet bloc.

14. The policy of economic penetration not only fits in with certain economic trends in the Soviet bloc, but is also in line with some developments in underdeveloped areas. Production of primary products, such as rice, cotton, sugar, rubber, jute and grains, constitutes a large portion of total output of many underdeveloped countries. Much of this production is exported and thus accounts for a sizeable portion of their foreign exchange earnings. In the past few years a number of underdeveloped countries have built up surpluses of primary commodities which they were unable to sell to the West. Hence Soviet offers to buy these goods were eagerly received. The conclusion of long-term export contracts with Soviet bloc countries seemed to be a convenient way of paying for the capital goods which were needed for economic development. Some countries may even have preferred long-term export contracts to aid, which they suspected of being subject to political conditions.

15. The Soviet bloc exploits feelings of nationalism and anti-colonialism at every opportunity. The tremendous industrial expansion undergone by the Soviet economy in the past thirty-five years is held up as an example of the superiority of communism.

By professing their desire to assist the underdeveloped areas in attaining a state of industrialisation and economic maturity, the Soviets hope to win converts to the communist philosophy. Even countries committed to free world military pacts, such as Turkey, Iceland and Pakistan, have been subjected to this economic diplomacy aimed at strengthening neutralist feelings in these countries.

II. Developments in Trade

16. The most striking changes in the foreign trade of the Soviet bloc compared with the prewar period have been a rapid expansion in the total volume of trade together with a sharp reduction in the share of that trade which is directed to the West. The West's share of the trade of the present members of the Soviet bloc has fallen from about three-quarters of the total in 1938 to about one-quarter at present. The same development occurred in Communist China, where, following the Communist conquest of the mainland in 1950, foreign trade was reorientated toward the Soviet bloc. Between 1950 and 1952, when the foreign trade of China doubled, the proportion of this trade with the Soviet bloc rose from one-quarter to three quarters.

17. Since 1953, however, this trend has been in some degree reversed, and there has been a rapid expansion of Sino-Soviet bloc trade with the outside world.

Trade of Sino-Soviet Bloc with Outside World

Exports

(millions of United States dollars)

	European Satellites	USSR	Communist China	Total
1953	808	382	433	1,623
1954	953	501	375	1,829
1955	1,283	644	493	2,420
1955/1953	+ 59%	+ 69%	+ 14%	+ 49%

Source: United States International Economic Analysis Division, Bureau of Foreign Commerce (Survey of East-West Trade in 1955, page 80).

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

Imports

(millions of United States dollars)

	European Satellites	USSR	Communist China	Total
1953	678	424	287	1,389
1954	897	574	294	1,765
1955	1,149	571	313	2,033
1955/1953	+ 69%	+ 35%	+ 9%	+ 46%

Source: United States International Economic Analysis Division, Bureau of Foreign Commerce (Survey of East-West Trade in 1955, page 80).

It is significant to note that the largest increases in trade since 1953, both relative and absolute, have taken place in the Eastern European satellites. During this period, trade between members of the Sino-Soviet bloc increased by less than one-fifth, while trade of the bloc with the outside world rose by about one-half. The entire Soviet bloc has put great emphasis on the strengthening of economic relations with the underdeveloped countries of the world; trade with the Near East and Africa doubled between 1953 and 1955, while that with Latin America increased five-fold. Soviet bloc trade with the underdeveloped countries rose from 28% to 33% of total Soviet bloc trade with the outside world. It is estimated that the Sino-Soviet bloc may now account for about one-eighth of the trade of underdeveloped areas in Asia. Nevertheless, trade with Western Europe accounted for two-thirds of the bloc's trade with the outside world in 1955, and had risen by one-quarter in value from 1954 to 1955.

18. Much of the increase in the export trade of the Sino-Soviet bloc since 1953 has been in manufactured goods reflecting the new trading relationships with underdeveloped countries. It is estimated that perhaps one-third of the increase in Soviet bloc trade with the outside world between 1953 and 1955 represented the exchange of manufactures for primary goods from underdeveloped areas. This along with expanded trade to Western Europe, has raised the share of manufactures in Soviet bloc exports from less than 30% in 1954 to about 40% in 1955. The European satellites were responsible for the greater part of this increase.

19. Despite the appreciable expansion in Sino-Soviet bloc trade with the outside world in recent years, this trade is still a relatively small part of total world trade. In 1955 it amounted to 4 billion dollars, about 2½% of total world trade. For Western Europe as a whole, East-West trade is only 3% of total foreign trade, although for some West European countries the share is higher. On the other hand, this trade with the West accounts for about one-quarter of the total trade of the East European satellites.

20. One of the outstanding features of East-West trade is the frequent variation in its composition. For example, Soviet bloc exports of foodstuffs as a proportion of total exports have varied

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

from 16% to 60% in recent years. Soviet bloc imports have likewise varied; imports of raw materials have fluctuated between 33% and 50% in the past few years. These rapid shifts in composition of exports and imports cause sharp changes in the trade of different Western countries with the Soviet bloc from one year to the next.

21. In a limited number of countries, including Finland, Iceland, Yugoslavia, Turkey, Austria, Afghanistan, Iran and Egypt, the Sino-Soviet share of trade in 1955 was 10% or higher, although historical or other special factors accounted for this. For example, the peace treaty arrangements with Finland and Austria have resulted in commercialising certain reparation payments. In Finland, a high-cost shipbuilding industry was established originally for reparations, and this industry has now become tied to Soviet trade. Turkey, Iran and Egypt had important trading relationships with the Soviet countries before World War II, and recent Soviet bloc moves have been directed towards strengthening these relationships.

22. Communist trade with the Middle East, Africa and Latin America is largely in the hands of the European satellites. The Soviet Union appears to have taken special interest in South and South-East Asia, although Communist China is the heaviest trader in the Far East. Some international division of labour is also evident between communist countries in the sale of manufactured commodities. East Germany specialises in electrical equipment, precision instruments and ships; Poland in railroad rolling-stock and mining equipment; Hungary in diesel engines and electrical appliances; Rumania in oil pipes and drilling equipment; Czechoslovakia in heavy machinery; and the USSR in large-scale public utility works. This specialisation does not, however, preclude some competition among Soviet bloc countries, and bids from more than one bloc member have been made in some instances in the middle East.

23. It is difficult to establish the precise balance of payments position of the Soviet bloc; trade data have to be derived from sources in other countries, and little information on invisible earnings and payments is available. On the whole, it appears that the balance of payments position of the entire communist bloc has been in balance for the past few years. Occasionally, as in recent months, Soviet gold sales are reported, but these usually reflect temporary imbalances.

III. Methods Employed

24. The methods employed by the Soviet bloc in the economic offensive include the usual techniques of long-term, low-interest credits, bilateral trade agreements, technical aid and trade fairs. Generally, attempts at penetration into new areas are preceded by announcements by high Soviet officials that a large expansion in trade between communist countries and the specific underdeveloped areas would be highly favoured by the Soviet countries. If the reaction to these announcements is favourable, then this is followed by statements that the Soviet bloc is prepared to assist the country in its economic development. On some occasions, the Soviet bloc have won contracts by bidding outlandishly low in order to introduce their technicians into a country. A recent East German project to build a bridge in Sweden has given rise to Swedish protests, because of the unreasonably large number of East Germans who have entered the country, ostensibly as technicians. When negotiations begin, Soviet bloc experts enter the country and study the technical aspects of industrialisation plans, and arrangements may be made for a long-term credit at low rates of interest. Often, at the same time,

a bilateral agreement is signed, providing for the exchange of raw materials for Soviet bloc capital goods. A sizeable portion of the country's export surplus may thus be tied up for a number of years. These economic agreements are followed up by other measures, including trade fairs, the opening of trade offices, cultural exchanges, and the use of communist technical experts.

25. It is through supplying arms in the Middle East that the Soviet bloc has enjoyed its most striking successes. These arms deals have been arranged on credit terms and have been generally tied to purchases of raw materials. Middle East countries thus become dependent upon the USSR for markets, at little cost to the latter, since the arms shipped are often obsolescent.

26. The entire programme of penetration appears to be directed from the highest levels. Extensive goodwill tours have been undertaken by Bulganin and Khrushchev on a scale unprecedented in recent Soviet history. Within the Soviet Union, the body responsible for the foreign economic programme, the Chief Directorate of Economic Relations, reports directly to the Council of Ministers. In the spring of 1956 the Council of Economic Mutual Assistance (CEMA) held a meeting, China attending as an observer, at which it was reported that plans were laid for co-ordinating the foreign economic policies of the entire bloc. The general economic policies and the various five-year plans were to be geared together to provide for national specialisation of production, although competitive bidding for foreign contracts was not precluded. Since October 1956, however, it already seems clear that bloc countries are competing with each other more for free world markets.

(i) Credits

27. Prior to the adoption of their new economic policy, the USSR granted credits to satellite members only, the European satellites receiving large-scale amounts in the earlier postwar years, and China obtaining the bulk of the loans after 1950. In 1955 and early 1956, the USSR almost stopped extending loans to the satellites, in favour of credits on a large scale to underdeveloped areas. At the same time, the satellites themselves made loans to underdeveloped regions to a value of more than \$300 millions, or about one-third of total Soviet bloc credits. However, it is reasonably certain that the largest credit given by a satellite (Czechoslovakia to Egypt for arms) was, in fact, financed by Russia. Recent economic weaknesses in the European satellites have forced the USSR to grant loans to Hungary, Poland, East Germany and Bulgaria and, in the near future, the burden of credits to underdeveloped areas will probably have to be shouldered by the USSR alone.

28. These credits are usually for long periods of time (up to 30 years), bear low rates of interest (2 to 2½%), and often provide for repayment in surplus agricultural commodities or local currency. Usually they are tied to purchases in the country of origin and are often conditional upon the acceptance of technical aid or training. Yugoslavia, India, Indonesia, Afghanistan and Egypt have received the greatest amount of loans under the programme.

29. The Soviet Union should not have any difficulty in meeting its commitments for capital goods exports arising out of its credit programme. The Soviet Union is the second largest industrial

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

producer in the world, with a level of output approximately equivalent to that of the United Kingdom and West Germany combined. Credits so far granted by the USSR, if drawn upon over a period of three years, would represent about one and a half per cent of Russia's annual capital goods output. Actual commitments for 1957 are estimated at about \$200 millions or about 1/10 of one percent of Soviet GNP.

30. The same does not hold true for the European satellites. Recent unrest and revolt, shortages of energy and the consequent inability to meet internal needs, revisions of five-year plans and requests for new loans from the USSR, all point to serious economic problems and shortages of capital in the satellites. While exports of capital goods, associated with long-term credits, may be necessary as a means of acquiring vital raw materials, it is clear that this will impose a heavy burden on some of the countries concerned.

31. The Soviet bloc's total credits to the outside world, if drawn upon in three years, would amount to about \$0.4 billion per year; the Western countries (OEEC countries plus the United States and Canada) invest, lend or donate at least \$2.8 billion per year to underdeveloped countries.(1) But though the total Soviet bloc credits may appear small, the way in which they are used is of importance, since great publicity accompanies all Soviet loans and the credit may be unusually large for the receiving country.

(ii) Trade Agreements

32. The Soviet bloc's trade expansion has been associated with a rapid increase in the number of trade agreements, particularly with underdeveloped areas. In 1955, about two-thirds of total Soviet bloc trade with other countries was based on bilateral trade agreements. From 1953 to 1955 the total number of agreements rose from 98 to 175, and the number in force continued to expand through 1956. Of the agreements signed for the first time since the beginning of 1953, three-quarters have been concluded with underdeveloped areas. Czechoslovakia, Poland and East Germany were the most active countries in the bloc, even more so than the USSR, despite a higher level of trade by the latter. These agreements provided for trading Soviet bloc manufactured goods against primary commodities. Many of these commodities, such as cotton and rice, form a large part of total production in the underdeveloped countries concerned which have in recent years at times found difficulty in selling them in traditional Western markets. In consequence, rapid inroads have been made into the economies of such countries as Egypt and Burma. For example, the Soviet bloc's share of Egyptian cotton exports rose from an average of 13% between 1946 and 1954 to almost 40% in 1956. Although for the most part these purchases meet needs in communist countries, there is evidence that some of the commodities are resold to third parties, as was the rice purchased by Hungary from Burma. While these re-exports may be made to acquire foreign exchange, on occasion the purpose may be to rid communist countries of surplus stocks acquired for political ends.

33. Political advantages are secured by the Soviet bloc through its pricing arrangements. Prices paid to underdeveloped areas may often be in excess of those on the world market; alternatively, the prices charged for Soviet goods may be lower than the world market price. However, since most trade agreements signed by the communist bloc are of a barter nature, it is not possible to state definitely whether or not any real benefit has accrued to the underdeveloped areas concerned. For example, it seems that Ceylon obtained favourable returns from a long-term deal with China, trading rubber for rice. On the other hand, Burma has shown dissatisfaction with

(1) See OEEC C(56)243

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

ts rice deals with the Soviet bloc, which have resulted in Burma eselling at a heavy loss some of the cement received in exchange. enerally, it appears that underdeveloped countries have not secured ny specially advantageous terms in their trade with the Soviet loc.

(iii) Technical Aid

34. The provision of skilled technicians from the Soviet bloc, often accompanies trade agreements and the granting of long-term credits. This aspect of economic diplomacy has become more pronounced within the past few years, along with the general expansion in foreign economic relations. India, Burma, Afghanistan and Egypt have received large numbers of these experts from the Soviet bloc, mainly from Czechoslovakia and the USSR, while at least eight other countries have had assistance. Training on the spot has been undertaken in connection with many large-scale enterprises. For example, the Soviet deal with India for a steel mill involves the training on the job of over 5,000 Indian workers. Technical institutes have been organized by the Soviet bloc in India, Burma and Egypt.

35. In addition, the communist countries take advantage of all opportunities arising from the United National Technical Assistance Programme and regional Economic Commissions to promote visits of personnel from underdeveloped areas to the Soviet regions. Invitations are given for inspection tours of the Soviet bloc, with expenses paid. In 1953, for the first time, the USSR offered the sum of 4 million roubles annually to the Economic and Social Council of the United Nations, such money to be spent in the Soviet Union to provide technical assistance to underdeveloped countries. In 1954 and 1955, it is estimated that there were only about 100 students from non-communist countries in academic institutions in Soviet countries. By early 1956, however, a sharp increase had occurred and there were 435 students from India alone studying in the USSR. In addition, about 300 Egyptian military personnel were reported studying in the Soviet Union, Poland and Czechoslovakia. Other examples include the training of Egyptian nuclear physicists as well as Indian professors from the Bombay Technological Institute.

36. This large-scale expansion in technical assistance presents advantages to the Soviet bloc. In underdeveloped countries admiration for Soviet methods leads to heavy propaganda gains for communism particularly where there are no means of drawing a comparison with the achievements of Western countries. The use of Soviet-trained technicians in a country helps to promote the future sales of Soviet capital goods. The communist countries are probably in as good a position today as the Western powers to supply highly trained technicians to underdeveloped countries. The number of engineers and scientists presently available in the USSR, for example, is approaching that of the United States; as many scientists and engineers graduate yearly in the Soviet Union as in all NATO nations combined.(1)

(iv) Trade Fairs

37. Participation in trade fairs has played an important role in the communist economic offensive. In 1955, for example, 49 Soviet bloc trade exhibitions - more than the total held in

1) See C-M(56)128

the previous four years combined - were held in 41 countries. Though a major share of communist foreign trade is with Western European countries, it is in underdeveloped areas that the greater number of trade fairs has been held. Reflecting the greater significance of trade for the satellite countries as compared with the USSR, the most important exhibitors have been Czechoslovakia, East Germany, Poland and Hungary. The USSR and China exhibited to a lesser extent.

38. The most extensive participation by the Soviet bloc in fairs in a non-communist country during 1955 was in India. Considerable attention was also paid to Pakistan, Indonesia, Egypt, Syria, Yugoslavia and Turkey. At many of these fairs, spectacular displays were put on to demonstrate the industrial achievements of communist countries. While such displays may pave the way for future sales of capital goods, the political effects of the publicity have not been overlooked. The size of the pavilions is a characteristic means of impressing the local population. For example, at the Djakarta fair in August, 1955, the Czechoslovakian exhibit was three times as large as that of the United States.

(v) Concentration on Specific Countries

39. Although the Soviet bloc trade programme has been expanding rapidly in many areas, one of the main features has been the emphasis on a number of "key" countries. These countries appear to have been chosen as part of a deliberate attempt to weaken their ties with Western defensive pacts or to win over neutralist opinion in countries such as Yugoslavia, Finland, Egypt, India, Burma, Afghanistan and Indonesia. Whatever success these efforts may have brought in the political field, it is clear that substantial gains have been made in most of these countries in the context of trade. In 1955, for example, over one-quarter of the total exports of Iceland, Egypt and Finland went to Soviet bloc countries, while Yugoslavia, Iran and Turkey exported from one-eighth to one-fifth of their total goods to the Soviet bloc. Though India still conducts only a small portion of its trade with communist countries, the credits extended (about \$300 million), the offers to share experience in the uses of atomic power, the gift of equipment for a large Indian state farm, have had considerable propaganda effect.

IV. Future Possibilities

40. The impact of recent developments within the Soviet bloc makes it difficult to predict the likely trend of foreign economic policy. The satellites and to some extent the USSR are facing economic problems which have caused the five-year plans to be revised downward. This will make it difficult for the satellites to extend large credits to the underdeveloped countries, although their basic need for greater trade with the outside world will remain. The problems faced by the USSR are much less acute, and it appears that she is strong enough to continue to extend credits both to the satellites and to underdeveloped areas. Since the granting of Soviet credits is politically motivated, the determining factor in the extension of such credits will be the opportunity to exploit a delicate political or economic situation in a free world country. China's rôle will continue to be that of an underdeveloped country giving limited but growing support to the economic offensive.

41. On the whole, it seems probable that great efforts will be made by the Sino-Soviet bloc, especially the European satellites, to expand trade in the next few years; such expansion in the past has paid handsome dividends in furthering the broader policies of Soviet countries.

42. Trade with Western Europe will continue to absorb the greater volume of Soviet bloc trade and may even expand in the near future in order to satisfy the satellites' growing needs for consumer goods. In the long run, however, the rising demand for industrial raw materials and food by the Soviet satellites may cause communist dealings in underdeveloped countries to increase more rapidly than with the West. The appeal of a greater volume of trade will continue to be exploited by the communists as an argument in favour of the removal of Western controls on strategic goods, and businessmen may expect to be subjected to heavy propaganda.

43. In carrying out its programme of strengthening economic relations with underdeveloped countries, the Soviet bloc is favoured by several factors. Communist trading, which is monopolistic in character and is guided by political as well as economic motives, permits great flexibility in trade policy. The communist trading organizations are often able to arrange for the exchange of capital goods against future deliveries of primary commodities on terms which Western firms, which have to take into consideration interest costs and the level of their inventories, are unable to match. Finally, any assistance needed by the underdeveloped countries for the installation of capital equipment can be given by the large and growing number of technicians and scientists available in the Soviet Union.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

DEVELOPMENTS IN VARIOUS AREAS

Europe

1. The Western European market has provided about two-thirds of the Soviet bloc's foreign trade in the past few years. Trade between the European communist countries and Western Europe has been rising steadily during this period and has been reinforced by twenty-two new trade agreements signed from the beginning of 1955 to 30th April, 1956. In 1955 the Soviet bloc earned a substantial surplus in this trade, but in the first half of 1956 this was turned into a deficit, as larger USSR exports to the West were more than offset by a sharp rise in imports.

2. Emphasis has been put on a campaign to abolish Western controls on strategic goods shipments to Soviet countries, and prospects of greatly expanded trade are held out as bait. However, the Russian campaign has not been successful. In April, 1956 a Soviet statement was made that trade with the United Kingdom might amount to £800 million to £1,000 million over the next five years if certain goods, which are on the strategic list, were traded. This would involve a sevenfold increase over 1955 levels of United Kingdom/Soviet trade, and was deemed by most observers to be quite unrealistic. The following month, an offer was made to France, this time with the suggestion of a three or four-fold increase, again tied in with the relaxation of strategic controls. A three-year trade agreement between the USSR and France was signed in early 1957, which called for a large increase in trade between these countries. Trade with the Soviet bloc is relatively unimportant to most European countries' total trade, with the exceptions of Iceland, Austria, Turkey, Finland and, recently, Yugoslavia.

3. Iceland signed bilateral agreements with Soviet countries for disposal of surplus fish in 1953. Since that time, almost all of the increase in exports of Iceland has been to communist countries, which by 1956 absorbed 28 per cent of total Icelandic exports. In November, 1956, an agreement was reached between Iceland and the British Trawler Association, ending a longstanding dispute and permitting the export of fish to the United Kingdom to the value of £1.8 million per annum. This would represent about 10 per cent of Iceland's current exports. However, for various reasons it is not likely that the permissible value of exports will be attained.

4. Following the Soviet agreement of May, 1955, ending the military occupation, trade agreements have been arranged between Austria and the USSR, and all the European satellites (excluding Albania). In addition, Austria has agreed by way of reparations to deliver one million tons of oil annually for ten years, plus \$25 million in goods for six years. The trade of Finland with the Soviet block, which amounts to about one-quarter of total Finnish trade, is based upon the commercialisation of former reparation payments. Finland had built up a high-cost ship-building industry to comply with the reparation arrangements, and is now dependent to some extent upon the Russian market to buy these ships. Finland has also received a \$20 million credit in convertible currency from the Soviet Union. It has been

reported that Sweden is dissatisfied with arrangements made with the East Germans, who are constructing a bridge in Sweden. A great many East German technicians are entering Sweden, ostensibly to work on the bridge, but their large numbers are proving disturbing to the Swedes.

5. In 1956 trade agreements were signed by Greece with Bulgaria, Czechoslovakia and the Soviet Union. At the Salonika Fair in 1956, Soviet bloc exhibitors increased their activities and suggested that higher levels of trade could be achieved. In November, 1956, the Soviet Union is reported to have offered additional oil to Greece when shortages occurred following the Suez incident. A large proportion of Greece's total output of bauxite is shipped to the Soviet Union, although Greek production of the ore is relatively small. Trade between the USSR and Greece in 1957 has risen considerably.

6. While Turkey has traditionally conducted a share of her trade with countries now in the communist bloc, the proportion of such trade tripled between 1953 and 1955, reaching about 20% of total trade in the latter year. This reflected payments difficulties with Western Europe. However, in the first half of 1956 there was a sharp decline in imports from the Soviet bloc as Turkey shifted her purchases to Western Europe. Trade with communist countries is mainly with the European satellites, and Turkey has trade agreements with East Germany, Czechoslovakia and Hungary. In April, 1956, the Soviet Union offered general economic aid to Turkey to help finance all development projects under way, and in addition to supply water pipes to the Turkish villages. This offer has not been officially acknowledged by the Turkish government.

7. By far the greatest efforts of the Soviet bloc in Europe have been directed at Yugoslavia. Following the 1948 dispute, Soviet bloc trade with Yugoslavia ceased completely, after having been close to one-half of total Yugoslav trade in 1948. By 1955 the dispute appears to have been healed sufficiently for 10% of Yugoslav exports to go to the Soviet bloc. In 1956, trade with the bloc may have doubled, and perhaps as much as one-sixth of Yugoslav trade was with the Soviet bloc. Trade agreements have been signed with all of the satellites and with the USSR.

8. The Soviet bloc, led by the USSR, had granted large credits to Yugoslavia, amounting to close to \$500 million in the past year. They consist of:

- (a) Soviet credit of \$54 million, for 10 years at 2% interest, for raw material purchases in the Soviet Union;
- (b) Soviet credit of \$30 million in gold or Western currency to be used in 1956-9 for trade deficits;
- (c) Soviet credit of \$120 million for agricultural and industrial investment;
- (d) \$75 million credit from Czechoslovakia for capital and consumer goods;

- (e) \$20 million from Poland and transportation equipment;
- (f) \$175 million from the USSR and East Germany to pay for construction of an aluminium plant.

Other arrangements have involved technical and scientific co-operation with the Soviet bloc, as well as some degree of nuclear co-operation. In May, 1956 Yugoslavia was admitted as an observer to the Council of Economic Mutual Assistance meeting, and subsequently a committee was established with Rumania to investigate the possibility of the Iron Gate hydro-electric project on the Danube. Czechoslovakia, Bulgaria and Hungary have expressed great interest in this. It remains to be seen whether the credits arranged will be drawn upon, and if the Soviet bloc countries will be willing and able to fulfil their commitments. For example it was announced in February, 1957 the \$175 million loan by East Germany and Russia for an aluminium plant was indefinitely deferred, but six months later, after relations between Russia and Yugoslavia had improved again a new agreement was signed which provided for fulfillment of this project.

9. The Soviets have made use of the Economic Commission for Europe in an attempt to undermine existing Western European economic co-operation. At the April, 1956 meeting of the Economic Commission for Europe a proposal was made by the Soviet delegate for an agreement on economic co-operation embracing Eastern and Western European countries. Offers of Soviet supplies of coal and oil were made to Western Europe. The proposal for an All-European Economic Agreement was repeated in a Soviet statement on 16th March, 1957 which also contained attacks on Euratom and the common market. The whole matter was discussed at the spring 1957 Economic Commission for Europe meeting. There were also some discussions in the Economic Commission for Europe regarding a Soviet proposal for an East-West payments scheme, which would provide for multilateral payments of trade accounts between Eastern and Western Europe. A flexible arrangement was agreed upon at this meeting whereby interested parties may notify the Economic Commission for Europe Secretariat of any amounts they wish settled, and the Secretariat will attempt to work out a compensation scheme.

The Middle East and Africa

10. There has been a large expansion in Soviet bloc trade with the Middle East; the number of trade agreements increased from 7 in 1953 to 55 in 1956. Whereas, prior to 1953, only Iran and Egypt had significant economic relations with the Soviet bloc, trade was developed, especially by the satellites, with many more countries in the past few years. The pace of trade has quickened since the last half of 1955, and more communist countries, including China, have recently become involved. This has become especially apparent after the Suez incident, and the proportion of Egypt's and Syria's foreign trade which is directed to the bloc has risen appreciably. There has also been a shift in the nature of trade. Previously the Soviet bloc exchanged oil and consumer goods for agricultural products, including cotton and rice. Arms are now the most important Soviet bloc export to the Middle East, and exports of capital goods have also become

more significant. Military credits have been far more important than economic credits. Indeed Egypt and Syria seem to have received more arms than they could use efficiently.

11. The greatest measure of success appears to have been achieved in those countries which were experiencing balance of payments difficulties, and had no oil revenues, and were not committed to Western defence alliances. Less success was achieved in those countries receiving oil revenues and in the overseas territories of the Western powers.

12. The most spectacular advance in the Middle East has been made in Egypt. In 1953 Nasser was still being attacked in the Soviet press; by 1955 he was the object of praise. In 1955, difficulties in marketing the Egyptian cotton crop in a slumping world market provided an opportunity for the Soviets to arrange a trade agreement. It is believed that they bought Egyptian cotton above world prices. Several other trade agreements between Soviet countries and Egypt were signed, and a credit of about \$200 million was arranged for the purchase of arms through Czechoslovakia, although the deal was actually financed by the USSR. This arms deal not only brought Egypt into dependence upon the Soviet bloc for military supplies, but also led to a greater reliance on Soviet bloc markets for Egyptian exports. Egyptian military personnel are now being trained in Czechoslovakia, Poland and the Soviet Union.

13. By the end of 1955, Egypt had trade agreements with most bloc countries; in the last six months of that year, 40% of her cotton exports went to the Soviet bloc. In 1956, about one-third of Egyptian exports, consisting mainly of cotton, went to the bloc. Not all of this cotton has been retained by the bloc. There have been recent reports of Czechoslovakia re-selling Egyptian cotton to West Germany. Czechoslovakia has delivered the first of several swing bridges, as well as railroad equipment. Hungary has made arrangements for construction of bridges and a power station, but it has been reported that work on these projects has been held up. The Soviet Union has offered to build a nuclear physics laboratory in Egypt. In June, 1956, Shepilov, the former Soviet foreign minister, visited Egypt, ostensibly to increase Soviet participation in Egyptian trade. Following both Western and Soviet refusal to assist in the Aswan Dam, Shepilov stated that the USSR would assist Egypt in its programme of industrialisation although little has so far been done along these lines. In September, 1956 agreements were drawn up providing for 400,000 tons of Soviet-grown wheat in exchange for cotton. These agreements followed upon a poor Egyptian harvest and would provide for most of Egypt's needs for wheat imports. Following the blockage of the Suez Canal and the Israeli-Egyptian military action, there was a Soviet gift of £1.5 million for medical equipment; there was also some assistance from China and East Germany. At about this time, Egypt cancelled contracts for oil development by Western interests and replaced them by Soviet contracts - in line with their policy of diverting trade from "unco-operative" Western nations. Russia is still actively pursuing its policy of penetration in Egypt, as witnessed by the resumption of arms shipments in recent months and by the large Soviet exhibits at the Cairo trade fair. The USSR has made Egypt a gift of all of its

equipment on display at the fair.

14. The sharp increase in communist influence in Syria has also followed upon greater economic penetration. As recently as 1955, Syria's trade with the Soviet bloc was insignificant (less than 3% of her total trade), but since the latter part of 1955 trade agreements have been signed with eight Soviet bloc countries. Soviet influence has been increasing, and late in 1956 it was reported that 20% of the Syrian cotton crop was sold to the Soviet bloc. These cotton sales probably paid for arms which Syria has received from Soviet bloc countries. Syria has accepted the Czech proposal to build an oil refinery at Homs and to provide the necessary financing. Other Soviet bloc proposals include one by Czechoslovakia to construct a sugar factory, and a bid by East Germany for the construction of a cement plant and textile mill. There has also been a proposal by a combination of Czech and East German interests to construct the Lattakia-Aleppo-Gezirch railroad. Most communist countries exhibited at two Syrian fairs in 1955. Soviet interest in Syria was shown by a mission visiting in March, 1956, while Shepilov spent some time there in June as part of his Middle Eastern tour.

15. It is not known what financial arrangements have been envisaged for the payment of these proposed schemes, apart from the refinery at Homs. It is believed that much of Syria's foreign earnings have been expended on the arms deal, and it is known that the ability of most of the European satellites to grant credits has been greatly impaired. Syria is an oil-deficient country and relies for the most part on exports of cotton, fruit, hides and tobacco. The revenue from transit rights of the Iraq Petroleum Company pipeline is estimated to account for about 10% of Syria's foreign exchange, and the loss of this revenue following the cutting of the pipeline in November, 1956, caused a serious fall in the Syrian balance of payments. The pipeline has been partially repaired but is not operating at full capacity. It is reported that arms shipments from the USSR have started again.

16. Iran has had traditional trading relations with the Soviet bloc. The main exports (excluding oil) consist of caviar, rice and minerals, and approximately one-quarter of total trade has been carried on with the communist bloc, mainly the Soviet Union. Following Iran's adhesion to the Baghdad Pact in October, 1955, the Soviet Union cut off all imports from Iran, except caviar, and allowed the trade agreement to lapse. However, the trade agreement was renewed after the visit by the Shah of Iran to Moscow in June, 1956, illustrating the Soviet policy of attempting to win over fringe countries in Western defensive alliances. In April 1957, the USSR and Iran signed a transit agreement, permitting common use of each others trade routes.

17. Activity of Soviet bloc countries in Israel has been expanding slightly, but these countries absorbed only about 2% of Israel's foreign trade in 1956. Although the Soviet bloc had no trade agreements with Israel in 1953, by the end of 1955 there were five in existence. At the Poznan Fair in 1956 there was an Israeli pavilion. In May, 1956 a Soviet tanker was chartered by Israel for carrying oil from Venezuela, and in July a two-year contract was signed with the Soviet Union, providing for about 40% of Israel's fuel oil needs. The USSR also offered oil drilling equipment and technicians, the latter through the UN Technical Assistance Programme. However, the Soviet oil agreements with Israel were cancelled by the USSR at the time of the Suez invasion,

and trade between those two countries has ceased for the present.

18. The Lebanon has been another area for Soviet bloc activities. She has had some difficulty in disposing of her high-cost exports, and has signed trade agreements with almost all communist countries since the latter part of 1955. Prior to that date, only Czechoslovakia and the Soviet Union had agreements with her. It is expected that these agreements will treble the level of trade with bloc countries, which amounted to about 3% of the Lebanon's total trade in 1955. Although no credits have been given to the Lebanon, visits by Soviet engineers to Beirut in February, 1956, and by Shepilov in June pointed to some possible future loan arrangements. Much of the Lebanon's foreign exchange is derived from banking and entrepôt activities. It is evident that Lebanon would be wary of any trading arrangements with the Sino-Soviet bloc which would lessen the confidence of the countries using Lebanese facilities.

19. In other Middle Eastern and African areas there is little Soviet bloc trade, although overtures have been made to several countries. In Jordan the first commercial contract with a Soviet bloc country was signed in June, 1956, when Czechoslovakia agreed to trade machinery for phosphates. A Polish contract to survey the Hejaz railroad was cancelled in June, following a protest by Saudi Arabia. A small amount of Soviet aid has been offered through the FAO. The ending of the British subsidy has created a financial problem of the first magnitude. It remains to be seen whether the financial agreement signed between Jordan and Egypt, Syria and Saudi Arabia will be effectively carried out, especially after the change in the Jordanian cabinet in May, 1957.

20. In Saudi Arabia little concern is shown for the marketing of agricultural products, since oil royalties provide sufficient foreign exchange. There have been reports of interest in Soviet arms, perhaps to be provided via Egypt. The recent visit of King Saud to the United States may have altered this situation. Chinese and Polish economic missions have toured the country, and Czechoslovakia and Poland have tendered for the construction of a railroad from Rujad to Jedda, a distance of 1,600 kilometres. Despite a low bid from Poland, this offer was rejected in early 1957.

21. In Iraq, which exports almost nothing to communist countries and which imports only small amounts from Czechoslovakia, Poland and Rumania, there have been reports of Czech attempts to negotiate business contracts through Western countries. The recent oil crisis severely reduced Iraqi revenue, but sufficient foreign exchange was available from reserves and credits from the Iraq Petroleum Company to permit the continuation of some development plans.

22. In the Yemen, a visit by a Soviet delegation in February, 1956 was followed by a trade agreement exchanging Yemeni coffee for Soviet industrial equipment. A Soviet proposal to build a port and a harbour and to train Yemeni mining students in Moscow was accepted in principle. The Crown Prince of the Yemen visited the USSR and East Germany in June, and in July negotiations were begun with Czechoslovakia and East Germany for the construction of cement factories. The border dispute with Aden has led to Yemeni appeals for "volunteers", and \$8,500,000 worth of arms has been reported to have been received from Czechoslovakia.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

23. The Sudan, whose trade with the Soviet bloc has always been insignificant, signed four trade agreements with Soviet satellites in 1955. Some economic and technical assistance for power-generating facilities offered by the Soviet Union in 1956 has been accepted. It is reported that the USSR and Bulgaria are selling cotton sheeting against Indian competition in the Sudan. Recent reports indicate great activity by Czechoslovakia in an attempt to sell machinery, and prices below those of Western producers have been quoted to the Sudanese. Ethiopia, which also does little trade with the Soviet bloc, signed a trade agreement with Czechoslovakia in April, 1956. The Soviet Union has suggested the opening of an economic and technical mission in Ethiopia, and this is under consideration. In January, 1956 a Soviet offer of wheat and a low-interest loan to Libya was turned down, and United States aid to Libya was subsequently increased. Liberia also turned down Soviet offers early in 1956.

South and South-East Asia

24. Trading activities in South-East Asia by communist countries have been concentrated in India, Burma, Indonesia and Afghanistan, with a view to cementing relations with these "neutralist" powers and weakening the SEATO Pact. The USSR and Communist China dominate Sino-Soviet trading in this area. The greatest attention has been paid to India. Beginning in December, 1953, the Soviet Union signed a five-year trade agreement with India, which initiated a large expansion in trading activity. By early 1956 India had concluded trade agreements with almost all Sino-Soviet bloc members. In the main, India was to export raw materials, including vegetable oils, and to import equipment for transport, heavy manufacturing and mining. In February, 1955 a long-term loan was negotiated by India with the Soviet Union to cover the cost of the construction of a steel mill in Bhilai, Central India. Along with these arrangements, some 5,000 Indian skilled workers were to be trained in India by the Soviets, while another 435 were to go to Russia. Further, a shipping service, consisting of Russian and Indian ships, was established. Following these agreements, India contracted to buy one million tons of Soviet steel over a three-year period. Bulganin and Khrushchev visited India in November, 1955 and promised equipment for a state farm, and offered to share knowledge on peaceful uses of atomic energy. There has been constant activity by Russian and satellite technicians who are assisting with oil explorations and developments, using Soviet bloc equipment. In July, 1956 two Indian delegations visited China to study agricultural developments. In November, 1956 a Soviet credit of about \$115 million was announced by the Indian Production Minister, to be used for oil and coal development, fertiliser plants, and shipbuilding. This credit will not be drawn upon until 1959. The total value of Soviet loans so far offered to India amounts to about \$300 million. At the same time, the Soviet Union has furnished much technical aid and has been an active participant in Indian trade fairs. In 1955, more money was spent by communist countries on fairs in India than in any other non-communist country, despite the low level of trade. The effect of all these moves can be noted in trade data; the Soviet bloc share of Indian trade rose from 1% in 1955 to 3% for the first three-quarters of 1956. It may be expected to go higher in the future.

25. Economic penetration has proceeded furthest in Afghanistan, where it is estimated variously that between one-third and two-thirds of foreign trade is with the Soviet bloc. For reasons probably more strategic than economic, credits amounting to about \$122 million have been granted to Afghanistan by the USSR and Czechoslovakia for arms purchases, as well as for economic projects. It is significant that the credits extend for 30 years and are repayable in Afghan exports, thus ensuring a continuation of trade. The credits have been utilised for the construction of oil storage facilities, a cement plant, and irrigation projects. Over 500 Soviet technicians assisted in the erection of the storage facilities for oil. Emphasis has been placed on eye-catching projects, and, following the Bulganin-Khrushchev visit in December, 1955, the Soviet Union donated a hospital and 15 buses to Kabul. The Russians had previously paved the streets of Kabul. The Soviet has also granted transit rights for Afghan goods to the East, bypassing Pakistan, with whom Afghanistan has a border dispute. It is reported, however, that this arrangement has been ineffective, and Afghanistan has been forced to use Pakistani trade routes. In August, 1956 Poland became the third bloc country to sign a trade agreement with Afghanistan.

26. Communist trading relationships with Burma in the past two years have proved somewhat unsatisfactory. Taking advantage of Burmese difficulties in disposing of surplus rice in 1955, the Sino-Soviet bloc made large purchases; as a result, about one-fifth of Burma's total exports went to the bloc in 1955 compared with almost none in 1954. By mid-1956 Burma had signed agreements with almost all Soviet bloc countries, including one arranging for the export of 400,000 tons of rice annually for five years to the Soviet Union. This represents about one-quarter of the total Burmese rice surplus, which in turn comprises three-quarters of total export trade. In return, Burma is to receive industrial equipment, a steel plant, irrigation assistance, a hospital and a technical institute in Rangoon. Further developments in the latter part of 1956 proved unsatisfactory to the Soviet bloc as well as to Burma. Hungary attempted to resell 50,000 to 70,000 long tons of rice purchased from Burma, ostensibly to improve her foreign exchange position. Burmese officials indicated that they were unhappy about the unfavourable terms of trade and the slow delivery of consumer goods. In addition, the unfortunate overpurchase of cement by Burma proved irritating when the cement began to deteriorate on the docks owing to lack of storage space. Subsequently, Burma resold some of this cement to India at a loss. Finally, the 1956 improvement in the cash market for rice, particularly with India, caused Burma to regret her large export commitments to the Soviet bloc. It has been reported that the entire Soviet bloc will receive only one-quarter of the amount of rice previously agreed upon for 1957. Other developments include the exploration by technicians from the USSR, East Germany and Czechoslovakia of Burma's potential mining resources. In September, 1956 it was announced that Burmese earnings on rouble account were to be used in Czechoslovakia.

27. Some headway has been made in Sino-Soviet bloc dealings with Indonesia in recent years. From a share of about 1% in Indonesian trade until 1954, the communists increased their proportion to almost 5% in 1955. Most of this trade was with

satellite countries, particularly Czechoslovakia and Poland. However, recent trends show a sharp shift from Czechoslovakia to China as the main communist supplier. Czechoslovakia had granted a credit of about \$10 million, which was used for textile machinery and vehicles. East Germany began construction of a sugar refinery, and other offers of economic assistance were proposed. In May, 1956 the Indonesian Government cancelled restrictions on rubber shipments to Communist China, and in June it reversed a previous decision not to renew satellite trade agreements. Until 1956, the USSR had only insignificant trade with Indonesia, and did not even participate in trade fairs in that country. However, in late 1956 the USSR granted a loan of \$100 million to Indonesia to be used for the purchase of capital equipment (including oil machinery) and to be repaid in goods or convertible sterling.

28. Sino-Soviet bloc activity does not appear to have been effective politically in Pakistan, although a number of trade agreements have recently been concluded. The level of communist trade in Pakistan has been at about 5% of total Pakistani trade for the past few years, and this has been dominated by exports to China. Early in 1956 the standard Soviet approach of offering economic assistance, construction of a steel mill and sharing knowledge of atomic power was made by the USSR, but was rejected by Pakistan. In May, a Soviet gift of grain for the famine area of East Bengal was accepted. A trade agreement with the USSR in June, 1956 limited Soviet trade offices to Karachi and contained no provision for economic or technical assistance. Developments indicate that the Pakistani are extremely wary in any dealings with the USSR doubtless on account of the generally unfavourable USSR stand on Kashmir and Pushtoonistan. In 1956 trade agreements were also signed with Poland, Hungary and Czechoslovakia, while further negotiations were carried on with China.

29. Ceylonese trade with the Sino-Soviet bloc, which up until 1956 had mainly consisted of a rubber-rice barter agreement with China, expanded recently. Following the election of a new government in April, 1956, a policy of expanding trade with both East and West was announced. Ceylon's High Commissioner to the United Kingdom visited Moscow and Peiping and declared his government's willingness to develop trade/relations and accept economic assistance. Trade agreements have been signed since December, 1955 with Poland, Czechoslovakia, Rumania, Hungary and Bulgaria, involving the exchange of tea and rubber for manufactured goods. In August, 1956 an economic agreement with Czechoslovakia was concluded, whereby the latter will provide technical aid and capital goods. A five-year barter agreement with China was renewed on terms quite favourable to Ceylon.

30. Nepal has accepted a grant of \$12.8 million from Communist China, to be used partly for construction of an engineering school. A loan of rice has also been made by the USSR to relieve a temporary shortage.

31. Trade between Malaya and Communist China may increase as a result of the relaxation of controls over rubber exports announced in June, 1956 by the Malayan government. In August, 1956 an unofficial trade mission from Malaya visited China,

although it is not known if any contracts were signed. In recent years, Malaya and Singapore have been importing some consumer goods from China, which have been competing with goods from Hong Kong and Japan.

32. Other areas in South-East Asia have been subjected to the Sino-Soviet bloc economic offensive. Cambodia accepted an offer of a grant-in-aid of \$22 million from Communist China. Free use of the grant is provided for, and this was the first instance of any sizeable gift from a communist to a non-communist country. Cambodia has also signed an agreement with China which, if fulfilled, would divert a sizeable portion of Cambodian trade toward China. Following a visit to Moscow in July, 1956 by Prince Sihanouk, the Soviet Union offered technical and economic aid, as well as the construction of a hospital. A trade and payments agreement and a technical co-operation arrangement with Czechoslovakia were also concluded. Thailand removed non-strategic goods (rice and timber) from an embargo list to China in June, 1956, but no indications of any trade are as yet apparent. Thailand has been importing a small amount of goods via Hong Kong for some time now. A delegation from Laos made a trip in mid-1956 to Peiping, but indicated that no commitments had been made to Communist China.

Latin America

33. One of the sharpest increases in Soviet bloc activity abroad has occurred in Latin America, with the European satellites taking the leading rôle. The Soviet Union has not played a significant part in Latin America, having diplomatic relations only with Mexico, Argentina and Uruguay. However, in January, 1956 Bulganin in a press interview stated that he would favour increased trade with and technical assistance to Latin America. Sino-Soviet bloc trade with Latin America in 1955 was one-third higher than that of 1954 and represented a five-fold gain over 1953. Trade with the Soviets in 1955 was still only 1% of the total trade of Latin America, although it was nevertheless important for a few countries, including Argentina, Brazil, Uruguay and Cuba. Emphasis has been placed on trade rather than on credits or technical assistance. Economic motives appear to be dominant for the satellites in their trade relationships with the Latin-American countries; Latin-American countries have stressed multilateral payments arrangements to avoid the rigidities of bilateral trade.

34. Communist trade with the Argentine has reached a level of about 9% of total Argentine trade; Argentina has trade agreements with the USSR, East Germany, Poland, Czechoslovakia, Hungary and Rumania. In 1953 an agreement was signed with the Soviet Union, providing for \$150 million of two-way trade and a \$30 million credit from Russia. However, both countries failed to deliver more than half the amount of goods, and a new agreement at a level of \$100 million was signed in 1955. The credit was reduced to \$4 million. Czechoslovakia has provided a \$15 million credit, while recently East Germany concluded a deal trading fishing vessels for Argentine fish.

35. The Soviet bloc's share of Brazil's total trade increased from 1% to 3% between 1954 and 1955. Presently Brazil has agreements with Poland, Czechoslovakia, Hungary and East Germany, trading

coffee, cotton and cocoa for industrial equipment, coal and chemicals. Brazil's financial problems in 1955 prompted the leaders of the main political parties to favour increased trade with all countries. Multilateralism seems to be favoured, as indicated by Brazil's request for East Germany to join the Hague Club. This request has been rejected by the members of the Club. In August, 1956 a Soviet offer was made to build oil refineries and help in the development of an oil industry.

36. The communist share in total trade with Uruguay dropped from 5% in 1954 to 3% in 1955. Much of the trade consisted of shipments of meat and wool to the USSR, and there were cutbacks in Russian orders in 1955. Uruguay had derived a substantial surplus from this trade, and although some sterling settlement had been made, there was a large balance outstanding. Thus in 1956 an agreement was signed to purchase cotton from the USSR equivalent to about one-third of total import requirements, perhaps to use up previously accumulated Soviet balances. In June, 1956, 600,000 pounds of wool was sold for sterling to Communist China. Bulgaria and East Germany have offered to trade railroad cars for rice.

37. In 1955 and 1956, Cuba sold large quantities of sugar to the USSR; 6% of Cuba's export trade in 1955 was with the Soviet Union. Surplus sugar stocks from the 1952 and 1953 crops were used, and payment was made in gold and dollars. It does not follow that this trade is likely to be permanent, since Russia is a traditional exporter of sugar and has recently been forced to import only because of poor crops in the Ukraine.

38. Overtures have been made by the communist bloc to Ecuador, leading to an exchange of visits between Prague, Warsaw and Quito. Difficulties in marketing bananas, Ecuador's basic crop, have arisen lately, and alternative markets are being sought. However, President Ponce of Ecuador has recently discouraged the expansion of economic relations with the Soviet bloc. In August, 1956 East Germany concluded a nitrate deal with Chile, a country which hitherto had had few economic dealings with the communist countries.

Table 1. Sino-Soviet Bloc Foreign Trade (Turnover (1))

(millions of current United States dollars)

	1938	1948	1950	1953	1954	1955(est)
<u>Intra-Bloc</u>						
Soviet Union	20	745	1,955	4,945	5,275	5,900
Eastern Europe } China	265	1,900	5,680	5,720	6,110	6,700
Sino-Soviet Bloc	285	2,645	7,635	10,665	11,385	12,600
Outside World	2,565	3,980	3,265	3,012	3,594	4,453
Total	2,850	6,625	10,900	13,677	14,979	17,053

% of Intra-Bloc Trade to total Trade

Soviet Union	3	42	78	86	83	82
Eastern Germany	11	n.a.	65	78	74	70
Poland	12	41	59	70	70	67
Czechoslovakia	18	32	55	78	75	n.a.
Hungary	23	34	61	77	70	n.a.
Rumania	27	71	83	84	72	n.a.
Bulgaria	31	78	89	87	87	88
Albania	19	38	100	99	99	96
China	1	•	26	75	80	80
Sino-Soviet Bloc	10	40	70	78	76	74

(1) Imports plus exports.

Source: National Trade Statistics.

Table 2. Trade Turnover of Sino-Soviet Bloc with Outside World

1953 - 1955

(millions of dollars)

Area of Trade	1953	%	1954	%	1955	%
Western Europe and North America	2,238	74.4	2,593	72.2	3,170	71.2
Near East	189	6.3	242	6.7	325	7.3
Far East	516	17.1	504	14.1	618	13.9
Latin America	67	2.2	251	7.0	340	7.6
Grand Total	3,010	100.0	3,590	100.0	4,453	100.0

Source: Mutual Defence Assistance Control Act Reports
and National Trade Statistics.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

Table 3. Estimated Credits Extended by Sino-Soviet bloc to Underdeveloped Countries (x)

1st January, 1954 - 31st December, 1956

(millions of dollars)

Recipient Area	Total Bloc	USSR	Satellites	Communist China
Middle East and Africa	<u>378</u>	<u>25</u>	<u>353</u>	
Ethiopia	3	-	3	
Egypt (including \$250 millions military credits)	283	-	283	
Iran	3	-	3	
Syria (1) (including \$70 millions military credits)	80	25	55	
Yemen (all military credits)	9	-	9	
South and South East Asia (2)	<u>590</u>	<u>467</u>	<u>89</u>	<u>34</u>
Afghanistan (including \$28 millions military credits)	162	122	40	
India (3)	282	245	37	
Indonesia (4)	112	100	12	
Cambodia (5)	22	-	-	22
Nepal (5)	12	-	-	12
Latin America	<u>25</u>	<u>4</u>	<u>21</u>	
Argentina	22	4	18	
Brazil	3	-	3	
Europe	<u>503</u>	<u>323</u>	<u>180</u>	
Turkey	17	4	13	
Finland	20	20	-	
Yugoslavia (6)	464	299	165	
Iceland	2	-	2	
Grand Total (including military credits of)	<u>1,496</u> (357)	<u>819</u> (40)	<u>643</u> (317)	<u>34</u> (-)

- (x) The credit portion of some agreements is difficult to isolate, in particular that pertaining to arms deals.
- (1) Not including \$7.5 million credit granted by Czechoslovakia on 16th March, 1957, to cover one half the cost of a refinery Czechoslovakia is to build.
- (2) Not including \$23 million Soviet credit granted to Burma in February, 1957.
- (3) Includes \$126 million not to be drawn on until 1959.
- (4) Includes \$100 million not yet ratified by Indonesian Parliament.
- (5) Grants.
- (6) Includes \$175 million credit for aluminium plant, utilisation of which has been deferred and perhaps cancelled.

Table 4 A. SOVIET UNION ECONOMIC ASSISTANCE TO BLOC, 1946-1955
(In millions of dollars, excluding short-term commercial credits)

<u>Credits for</u> <u>Economic Development</u>	<u>Date</u>	<u>Value</u> <u>\$</u>
Poland	1948	450
	1950	100
Communist China	February 1950	300
	October 1954	130
Bulgaria	March 1947	5.0
North Korea	1949	40
		<u>\$1,025.0</u>
<u>Credits for Commodity Imports</u>		
East Germany	May 1950 - April 1951	2.38
	July 1952	1.5
	July 1953	57.75
	August 1953	121.5
	1954	180
Czechoslovakia	1947	23
	December 1948	25
Poland	March 1947	28
	1948	36
Hungary	1953	12.3
	1954	25
	June 1955	2.5
Rumania	1946	22.5
	1947	10
		<u>\$547.4</u>
<u>Grants</u>		
North Viet a	1955	100
North Korea	1953	250
		<u>\$350</u>

<u>Purchase of Soviet Holdings</u>	<u>Date</u>	<u>Value \$</u>
East Germany	1952-1953	1,020
Rumania	September 1954	800
	December 1955	N.A.
Hungary	November 1954	180
Communist China	October 1954	100
Bulgaria	October 1954	N.A.
	November 1955	-
		<u>82,100</u>
 <u>Military Loans</u>		
Communist China	1954	500
	1955	500
Hungary	1949	37.7
	1952	50
	1954	1.75
	1955	120(a)
		<u>81,210</u>
	TOTAL	<u>85,232.4</u>

(a) Balance outstanding in December 1955.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

Table 4 B. SOVIET UNION ECONOMIC ASSISTANCE TO BLOC,
 JANUARY 1956 - JUNE 1957
 (In millions of dollars, excluding short-term commercial credits)

<u>Edits</u>	<u>Date</u>	<u>Amount</u>	<u>Reported</u>	<u>US \$ Equivalent</u>
Communist China	April 1956	rubles 2,500.0		625.0 (a)
East Germany	July 1956	DM (E) 900.0		405.0
	January 1957	rubles 340.0		85.0
Bulgaria	February 1956	rubles 370.0		92.5
	February 1957	rubles 200.0		50.0
Poland	September 1956	rubles 100.0		25.0
	November 1956	rubles 700.0		175.0
Romania	December 1956	rubles 270.0		67.0
Hungary	October 1956	rubles 100.0		25.0 (b)
	February 1957	rubles 1,000.0		250.0
Rumania	April 1957	rubles 31.0		7.5
Outer Mongolia	1956	rubles 900.0		225.0 (c)
	1957	rubles 200.0		50.0
				<u>2,082.5</u>
<u>Cancelled Debts</u>				
Poland	November 1956	rubles approx. 2,000.0		500.0 - 600.0 (d)
Romania	December 1956	rubles approx. 2,870.0		717.0
Hungary	March 1957	forints 1,000.0		85.0
	Uncertain	forints 1,000.0		85.0 (e)
Rumania	April 1957	rubles 422.0		105.5
				<u>1,492.5 - 1,592.5</u>
East Germany	July 1956	cancellation of half of the Soviet armed forces support costs		1,140.0 - 1,425.0

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

<u>Grain Delivery Credits</u>	<u>Date</u>	<u>Amount Reported</u>	<u>US \$ Equivalent</u>
Poland	November 1956	1.4 million tons grain	
Rumania	December 1956	0.5 million tons grain and fodder	
Bulgaria	October 1956	unknown	
		at \$60.0 per ton - approx.	120.0
<u>Grants</u>			
North Korea	1956 (entire year)	rubles 280.0	70.0
Hungary	March 1957	rubles 80 - 90	20 - 22.5 (f)
Mongolia	May 1957	rubles 300.0	75.0
			165.0-167.0
<u>Deferred Debts</u>			
Hungary	March 1957	rubles 150.0	37.5
		TOTAL	\$5,037.5-5,425.0

- (a) Apparently a credit.
- (b) Possibly absorbed in February 1957 credits of \$250 million.
- (c) Announced May 1957 as granted during last 10 years; bulk was presumably given in 1956 when only major credits during 10 year period were negotiated.
- (d) Plus "several hundred million rubles" out of such titles as transportation etc.
- (e) An earlier cancellation of one billion forints was announced in March 1957, although no date was given.
- (f) Adjustment of earlier transportation costs.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

able 5. Trade and Payments Agreements of Outside World with the
Sinc-Soviet Bloc

1953 - 1955

	Agreements in Force			Increase 1955 over 1953	% of total increase
	1955	1954	1953		
Western Europe	78	68	58	20	26
Other Europe	16	9	8	8	10
Middle East and Africa	38	27	11	27	35
South and South East Asia	25	19	11	14	18
Latin America	18	15	10	8	10
Total	175	138	98	77	100

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

Table 6. Trade Fairs attended by Sino-Soviet Bloc

<u>Year</u>	<u>Number of countries in which bloc exhibited</u>		<u>Number of Fairs and Exhibitions in which Bloc Exhibited</u>
	<u>Outside World</u>	<u>Bloc</u>	
1951	6	2	8
1952	13	2	20
1953	21	2	58
1954	23	3	60
1955	32	9	149

Source: Survey of East-West Trade in 1955, Mutual Defence Assistance Control Act of 1951, page 15.

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

Table 7. Sino-Soviet Bloc share of trade of specific countries

DECLASSIFIED - PUBLIC DISCLOSURE / DÉCLASSIFIÉ - MISE EN LECTURE PUBLIQUE

	Sino-Soviet % of total Exports				Sino-Soviet % of total Imports			
	1953	1954	1955	1956(1)	1953	1954	1955	1956(1)
Austria	10.9	9.6	10.2	13.4	11.0	9.2	9.6	9.4
Iceland	31.4	27.9	25.8	27.8	34.4	28.2	27.0	23.7
Yugoslavia	0	2.6	13.8	21.6	0	1.2	7.5	13.7
Iceland	19.8	24.9	27.8	30.3	8.6	18.3	22.2	27.3
Turkey	7.4	16.5	21.8	24.6	5.5	9.4	18.3	12.6
Egypt	12.2	14.1	26.7	34.9	7.7	5.9	6.8	11.4
India	0	.5	1.3	n.a.	2.6	2.6	2.9	n.a.
Iran	12.5	18.3	15.2	n.a.	9.7	9.5	9.4	12.7
Indonesia	1.3	1.6	2.1	2.7	.7	.9	1.7	4.0
Yemen	.5	.3	19.0	n.a.	1.2	2.6	2.2	n.a.
Malaysia	15.6	12.3	6.3	11.7	13.5	11.3	6.0	5.2
Philippines	.5	1.1	3.6	3.4	.9	2.4	6.6	5.5
Peru	2.1	7.8	7.4	n.a.	1.8	7.1	8.2	n.a.
Sri Lanka	.7	1.5	3.3	n.a.	.8	1.1	2.9	n.a.
Uruguay	.4	9.5	5.7	2.3	.4	.9	1.1	2.2
Vietnam	.1	.4	6.3	5.0	.1	.2	.3	n.a.

(1) partial data only.

n.a. not available.

Sources: Survey of East-West Trade. Mutual Defence Assistance Control Act 1951, p. 88-93
 also Direction of International Trade Annual Issue 1955 and November, 1956.