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THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC

Report by the Committee of Economic Advisers

I. Recent General Developments

1. During the first 11 months of 1959 (1) the Sino-Soviet bloc has extended to underdeveloped countries credits and grants for economic purposes totalling \$932 million (2). This is more than one half of the total of economic credits extended by the entire Sino-Soviet bloc in the five-year period from 1954 to the end of 1958 (3). Although total Western aid to all underdeveloped countries remains considerably larger than the total aid of the Sino-Soviet bloc, for those underdeveloped countries to which the Sino-Soviet bloc has given aid, the order of magnitude of Eastern aid is about the same as that of the West (4). In this group there are, however, some countries where Sino-Soviet bloc aid far exceeds Western aid and others where the contrary is true.

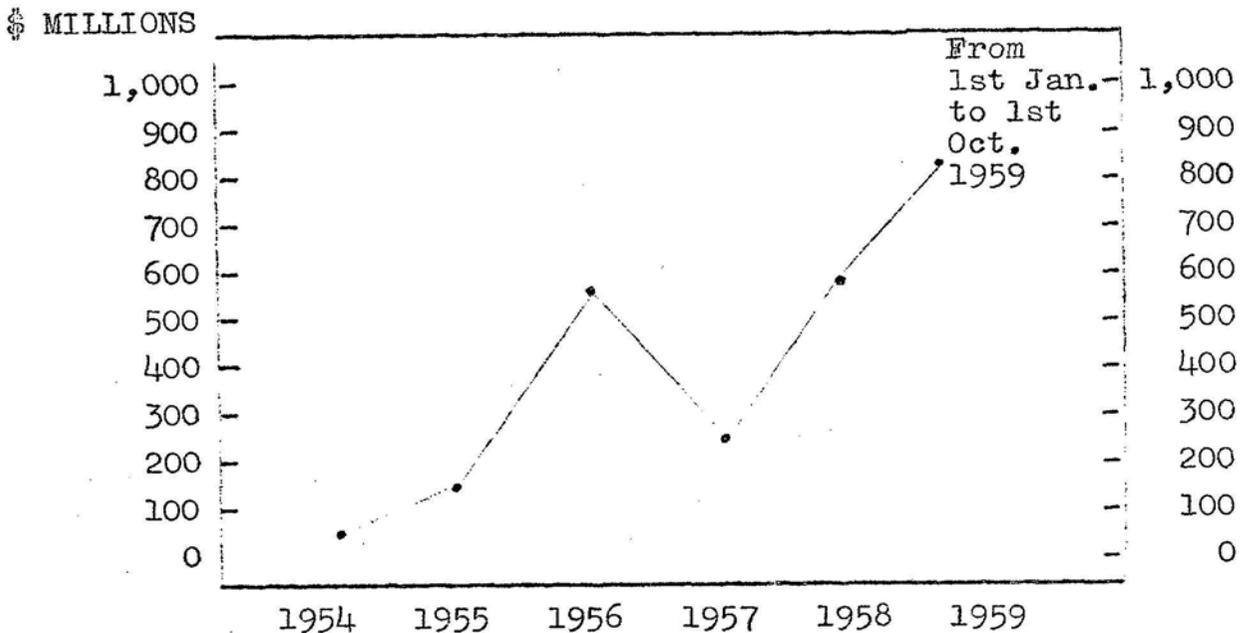
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- (1) For a report on activities in the last half of 1958 see C-M(59)2, 21st January, 1959.
- (2) The present report covers only activities from 1st January to 1st October, 1959; figures in the report therefore do not add up to this total, but to an amount of some \$832 million.
- (3) See Table 1, Annex II. Not including about \$354 million in credit extended to Yugoslavia in 1956 and subsequently either cancelled or allowed to expire.
- (4) See Table 3, Annex II. It should be noted that the data for the West are incomplete: Certain types of aid are not included; figures are not available for the Federal Republic of Germany; the period covered for government aid is from 1954 to 1957; the IBRD figures also cover only four years; and private investment is excluded.

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CHART I

ECONOMIC AID EXTENDED BY YEAR
BY THE SINO-SOVIET BLOC

1954 - 1959 (to date)
 (IN MILLIONS OF US DOLLARS)



2. The USSR has played the dominant role during 1959 and has extended sizeable credits to:

	<u>US \$ million</u>
India	420
Iraq	138
Ethiopia	100
Guinea	35
Indonesia	<u>18</u>
	<u>\$711 million</u>

and grants to:

	<u>US \$ million</u>
Afghanistan	84
Nepal	7
Cambodia	1
Yemen	<u>2</u>
	<u>\$94 million</u>

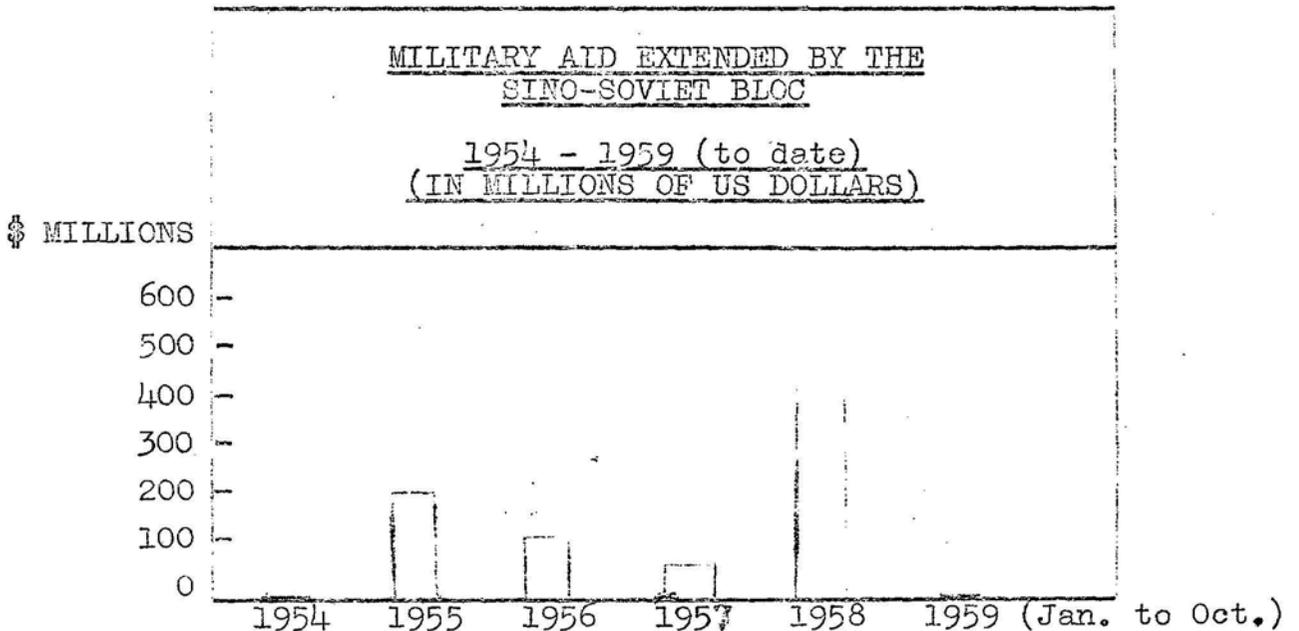
Russia is reported to have made more or less vague offers of economic aid to:

	<u>US \$ million</u>
Morocco	37
Uruguay	120
Bolivia	60
British Guiana	70
Cyprus	<u>unknown</u>
	<u>\$287 million</u>

The Russians are continuing to make general promises of aid: at the May, 1959 meeting of the Economic Commission for Latin America, the Soviet Ambassador to Mexico called for extended trade between the Soviet Union and the Latin American countries and made offers of economic aid and technical assistance.

3. Since the beginning of the offensive the Communists have supplied arms to a number of countries (Egypt, Syria, Yemen, Afghanistan, Indonesia, Iraq and Guinea). It appears, however, that activities in 1959 have been limited to delivery of arms under earlier agreements.

CHART II



4. The European satellites have continued to account for a large share of the bloc's trade with underdeveloped countries (1). However, they have extended only small credits, whenever these

(1) See Table 2, Annex II, for figures on bloc trade with the underdeveloped countries in 1958. For 1959, information is still incomplete.

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appeared necessary to increase their exports to these countries. Russia seems to be using to an increasing extent the satellites as sub-contractors: thus, she appears to be re-exporting to India goods produced in East Germany. In the East German statistics these goods appear as exports to India, but in the Indian statistics they are regarded as imports from Russia.

5. Communist China seems to have slackened its activities in the economic offensive in recent months. This probably reflects in part the serious internal economic difficulties which she is at present experiencing; this year's grain crop is likely to be lower than that of 1958 and transportation bottlenecks also are causing difficulties. It has been reported that Chinese food exports to Hong Kong, a substantial earner of hard currency, have been substantially lower than in 1958 and Hong Kong has been forced to look elsewhere for her food supplies. The deterioration in China's relations with neighbouring countries over the past year may also have made these countries wary of increasing their economic ties with China.

6. There is no real contradiction between the Soviet Union's aid to underdeveloped countries and the efforts she has been making to obtain credits from industrialised countries of the West (1). Russia wants to import Western capital goods in order to draw on Western technology for the fulfilment of the Seven Year Plan. Since her exports to the West could not readily match the desired imports and since her gold reserves, though high in relation to her foreign trade turnover are not limitless (the Soviet Union may well consider the gold stock as a vital reserve to be used only in cases of unforeseen calamities, e.g. bad harvests), credits would be needed to fill the gap. She may also hope that Western countries will later have to open their markets to Russian goods, to make possible repayment of the credits. Another reason for the Russian demands for credits might be desire to stir up controversy and to divide the West by trying to play one Western country against another in the bidding for Russian orders, especially in industries which have unemployment and other excess capacity.

7. It does not seem that the credits are needed to finance indirectly the Soviet economic offensive. It should be noted that the credits recently extended by Russia to underdeveloped countries will not be drawn upon at once; for example, the credit of \$375 million to India will not be used before the beginning of the Indian third Five-Year Plan in 1961. Provision that Soviet credits cannot be used immediately is not typical: however, in practice, there is always a time-lag before major drawings take place, because of delays in arriving at agreement on projects, in surveying, etc. Thus drawings in the next twelve months will probably come mainly

(1) In recent months there have been attempts to secure such credits in order to buy more machinery, especially for the chemical industry, and also ships.
Compare C-M(59)75 dated 3rd August, 1959.

from earlier agreements. The present rate of drawing on credits, at most \$200 million a year, is well within Russia's capacity to supply capital equipment.

II. Driving Forces in Soviet Policy

8. Though the Communists have obviously suffered political setbacks in some countries such as Egypt and India, which have been primary targets of the Soviet economic offensive, the bloc countries have not gone back on their promises to give economic assistance. This policy will have a strong propaganda impact in a country like Egypt, where the withdrawal of Western offers to finance the Aswan Dam is still fresh in Egyptian memories.

9. The strong political motive which underlies the Soviet trade and aid drive has been re-emphasised by a number of recent developments; for example, the Russians have for the first time given grants to Afghanistan, Nepal, Cambodia and the Yemen, but not to Burma, in spite of Burmese requests. The Afghan grant illustrates, in a special way, the degree to which the USSR is ready to depart from its usual practices in giving aid if the political situation requires it. This might be interpreted as a new element of flexibility in the Soviet economic offensive. On the other hand, the Afghan grant might bring problems for the Bloc insofar as other underdeveloped countries might regard it as setting a precedent.

10. It may well be that the Russians will be forced to become increasingly generous in their aid programme, especially as the novelty of Russian aid wears off. They must also now take into account the soft currency loans of the US Development Loan Fund, and perhaps also the credits of the International Development Association when this body is established. The recent Russian grants are indicative of Soviet flexibility when faced with a new situation. This applies clearly to the \$80 million grant to Afghanistan, which followed upon that country's refusal to accept further credits because of her inability to finance the local costs and to repay foreign exchange.

III. Highlights by Area (1)

11. In Egypt preparatory work on the Aswan Dam has begun; the foreign exchange costs on the first phase are to be financed by Russia, with the contracts carried out by Soviet bloc countries. Russia asked for a modification of the plans to cut costs by reducing the number of tunnels and having the water diverted by means of channels. The Egyptian authorities referred these new plans to their Western engineering advisers, who, according to existing information

(1) For detailed country reports, see Annex I.

would have preferred the first plan. Nevertheless, the Egyptians accepted most of the Russian proposals. It has now been suggested that Russia may finance the second phase of the project as well.

12. In 1959 the bloc has delivered arms to Iraq, Guinea, Indonesia and perhaps Afghanistan under earlier agreements for military aid. It is of interest also to note that the Communists have become important suppliers of high-powered radio transmission equipment to a number of countries including Egypt, Syria, Iraq and Guinea. Hungary is also reported to have offered to supply a radio transmitter to the Mali Federation.

13. Recent Soviet initiatives in Afghanistan (1) and Ethiopia, have attracted much attention. The Russians, whose activities in Afghanistan until 1959 had been restricted to the Northern part of the country, have now signed an agreement to build roads connecting the North with the South. Some observers, including the Pakistan and the Iranian Governments have drawn attention to the possible strategic importance of the road construction programme in Afghanistan. The costs, in both foreign exchange and local currency amounting to about \$80 million, will be paid for by the Russians. Afghanistan may also have received new military aid from the Russians.

14. The Russian credit to Ethiopia, amounting to 400 million roubles, which was extended during the recent visit of the Emperor to Moscow, is very substantial in relation to both Ethiopia's needs and to assistance received so far from the West. It might be expected that utilisation of this credit may take considerable time.

15. There has been a very considerable amount of Communist economic activity in Guinea in the past six months. Six Communist countries have signed trade agreements with Guinea which may direct one-quarter of Guinea's foreign trade to the bloc. There have been deliveries of arms from the Communists who have also built a radio transmitter. Communist bloc technicians are already in Guinea and there have been reports that some of them are employed in vital government departments, such as the Ministry of the Interior and the State Trading Bureau. The most recent development has been the extension of a Russian credit amounting to \$35 million, repayable in twelve years at 2½% interest. Reportedly, there are 20-30 Soviet experts in Guinea.

16. The Communists have been paying a great deal of attention to Latin America in recent months. It will be recalled that Argentina had already accepted a credit of \$100 million from Russia towards the end of 1958. Recently there have been reported vague offers of economic aid to Bolivia and Uruguay. There has also been an acceleration in the tempo of bloc economic activity in Brazil.

(1) See AC/119-WP(59)91, 91/1, 91/2, 91/3.

17. Data on trade between the Communist Bloc and Western Europe for 1959 are somewhat sketchy, but it seems clear that there has been a significant increase in trade. Russia has accounted for a large part of the increase in trade, with her exports increasing more rapidly than her imports, leading to an improvement in Russia's balance of trade (1).

18. Two countries, Turkey and Yugoslavia had substantially lower levels of trade with the Soviet bloc in the early months of 1959 compared with the previous year. The drop in Yugoslavia's trade with the bloc, which seems to be the result of special circumstances rather than long run factors, reflects the lower targets set in this year's agreement following the new political difficulties that began in April, 1958. As far as Turkey is concerned this drop results from measures taken by the Turkish authorities within their stabilisation programme to diminish trade with bloc countries and direct it more towards the countries of the Free World.

IV. Possible Future Developments

19. In the light of current developments, it seems clear that the Soviet Union will continue to make offers of assistance to underdeveloped countries, and will make serious efforts to fulfil her rapidly rising obligations. Apart from the Middle East, it looks as if the new focus of activity will be on the newly independent countries of Africa. It also appears likely that the Russians will pay higher attention to South America, focusing at least as much on trade as on aid. Many countries in these areas are in serious economic difficulties and might be tempted to accept Communist economic aid and assistance offers.

20. Recent activity of the Soviet bloc in underdeveloped countries reveals a greater degree of co-operation between the USSR and the satellites. Russia will use some of the satellites' production for re-export to underdeveloped countries and may also find it convenient to use them as a front for some deals.

21. As previously noted, the Chinese have slowed down their trade and aid drive in South East Asia, an area in which they have played a major role in the past. For the moment, there does not appear to be much likelihood of a major economic offensive by the Chinese because of existing internal economic difficulties. Indeed, China may even limit Russia's ability to carry out her penetration programme in the near future. The high level Chinese mission that came to Moscow on 28th August may have negotiated for some large-scale economic assistance and Russia may be forced to some extent to choose between helping her Chinese ally or extending her economic offensive.

(Signed) F.D. GREGH
Chairman

Palais de Chaillot,
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(1) See Table 4, Annex II.

ANALYSIS BY COUNTRIES

Middle East

1. Despite the increased strain in political relations between the United Arab Republic and the bloc there has not been any slowdown in their economic relations. In January, 1959 a contract was signed by the UAR and the USSR providing for the latter to build shipyard facilities at Alexandria. Early in the year the UAR signed an agreement with the USSR providing for Soviet delivery of 200,000 tons of wheat. In June it was reported that 5 more projects had been agreed upon by the UAR and the USSR under the terms of the January, 1958 credit of \$175 million. There are now 76 Egyptian industrial projects receiving assistance from the USSR. On 26th February, the UAR signed a three year trade and payments agreement with East Germany, calling for a yearly increase in total trade, and containing a clause according to which goods can only be re-exported with the permission of the original exporter. East Germany is to build projects including a photographic film plant to be financed under the \$20 million credit reported in 1958. The UAR has also signed trade and payments agreements with Czechoslovakia, Hungary and Communist China. During the current season, about 60% of Egypt's cotton exports have gone to the bloc.

2. Czechoslovakia will sell two 150 Kw radio broadcasting transmitters to the Syrian region of the UAR. Bulgaria is to build the Mharded Dam in Syria under the terms of the October, 1957 USSR - Syria Aid Agreement. Under the same agreement a contract has recently been signed for the construction of the Mahardah Dam on the Euphrates River. Hungary is to install automatic telephone exchanges in three Syrian cities. Czechoslovakia has completed on time the construction of the oil refinery at Homs. A Soviet-Syrian shipping service between Odessa and Latakia was inaugurated in March.

3. Construction work on the Aswan High Dam has begun. Russia will finance the foreign exchange costs for the first stage of the Dam and most of the European Satellites may participate as sub-contractors. The Russians suggested modifications to the original plans for the construction of the Dam. The Egyptians sought the advice of some Western engineering firms on these modifications. Although the Western experts are reported not to have approved the Russian modifications completely, the Egyptians accepted some of them after further negotiations with the Russians. Egypt has now signed an agreement with the Sudan on the sharing of the Nile Waters. The financing of the second stage of the Aswan Dam is still to be arranged; it is reported that Russia may be willing to finance this stage as well as the first.

4. Western economic assistance to Egypt has been resumed. The US has sold to Egypt surplus agricultural products to the value of \$83 million, under Public Law 480 against payment in Egyptian currency and the Export-Import Bank has recently extended a dollar loan of \$12 millions. A World Bank loan to Egypt for improvements of the Suez Canal is under negotiation.

5. The Yemen has received goods and technical assistance from Communist China under the provisions of the credit agreement to the value of \$16 million signed in January, 1958, for the construction of a highway of a textile plant. China has arranged to deliver 10,000 tons of wheat to the Yemen which is suffering from a drought. The USSR is constructing the port at Al Hudaydah and shipped in February, 1959 10,000 tons of wheat as a gift to the Yemen. The US has also made a gift of 15,000 tons of wheat. It has been reported that an East German mission offered as a gift two hospitals, to be completely equipped and staffed by medical personnel from the Soviet bloc.

6. On 16th March, 1959, under an economic and technical co-operation agreement, the USSR extended a credit of \$137.5 million to Iraq, carrying 2½% interest and repayable in local currency in twelve years from 1961. Under this agreement 26 industrial projects are to be established and the USSR will provide technical assistance; about 325 Soviet technicians have already arrived in Iraq and some of them may be working in Government departments. Russia will also undertake resource surveys and train at least 500 Iraqi specialists. One of the projects to be built by Russia is a 60,000 ton steel mill in Baghdad. A United Kingdom firm had the contract originally, but it has been cancelled. It has been reported that the Russians have been given access to Western cost estimates so that these may be undercut as a means of winning contracts. Russia is to build four 100 Kw broadcasting stations and a shipyard for river craft in Iraq; she is to extend assistance for medical projects in Iraq and 70 Soviet doctors and nurses have already arrived. The USSR has agreed to supply Iraq with arms to the value of \$168 million, of which \$118 million represent a credit. Iraq has announced that no further foreign oil concessions will be granted but that technical assistance would be accepted. In April some Russian oil experts arrived in Iraq. Iraq has also announced her intention of exercising her option to take 12½% of the oil produced by the IPC, in the form of oil rather than currency. Poland has shown some interest in buying oil from Iraq and has also offered to her some oil tankers. An airline service has been started between Prague and Baghdad. Communist China has concluded with Iraq a trade and payments agreement totalling \$1 million. Iraq has now signed trade and payments agreements with all the Sino-Soviet bloc countries, excluding Albania and the less important Asian Communist states. These agreements in general provide for the export of Iraqi agricultural commodities in exchange for bloc capital equipment and other manufactured goods. Russia and Iraq have signed an atomic energy agreement with Russia

providing an experimental reactor for the former Baghdad Pact atomic centre.

7. The USSR has delayed the building of certain hydro-electric and irrigation projects in the border area between Russia and Iran, after Iran signed a bilateral defence agreement with the US. Russia has, however, asked for an increase in trade with Iran in the coming year. In May, the USSR and Iran signed a one-year trade protocol in the amount of \$36 million each way, an increase of \$5 million over last year's level. In January, 1959 Poland agreed to build a sugar plant worth \$4.7 million, of which \$3.8 million is covered by a credit to be repaid over 7 years at 3% interest.

8. Hungary and Rumania have offered to purchase 150,000 tons of phosphates from Jordan. Rumania has sold 100,000 tons of fuel oil to the Lebanon for delivery in 1959. The USSR has bought 300,000 crates of Lebanese apples for the period 1959/1960. A barter agreement between the two States is under discussion, providing for the exchange of Lebanese agricultural produce against Soviet cereals and wheat. Czechoslovakia has offered to sell Lebanon equipment for a textile factory and is negotiating for a bilateral air agreement.

9. The Sudan, which was having considerable difficulty earlier in the year in selling her cotton, signed trade agreements with Russia, Czechoslovakia, Poland, Hungary and China which, if carried out would amount to about 10% of Sudan's trade. However, Sudanese-Soviet negotiations for a long-term aid agreement broke down in April, 1959. In recent months, the sales of Sudanese cotton to the West have increased sharply, following a change in Sudan's marketing policy (1), and all of this year's near record cotton crop in addition to last year's holdover had been sold by mid-August. The Sudan has also received aid from a number of Western countries to assist her in carrying out her development programme.

10. Israel is reported to have turned down an offer to buy Soviet oil through certain Western intermediaries. It has been reported in the Nicosia press that Khrushchev has promised "every possible help" to the Cyprus Republic, following a visit to Moscow by a Cypriot delegation. Cyprus has been having difficulty in selling her goods to the West this year, and the Soviet bloc is said to have offered to buy goods amounting to 20% of Cyprus total exports.

Africa

11. The USSR has signed a trade agreement with Ethiopia and has also extended a credit totalling 400 million roubles. The

(1) For NATO's role in this see documents: C-M(58)168, 17th December, 1958, C-M(59)4, 23rd January, 1959, C-M(59)56, 28th May, 1959.

credit may be used for the general agricultural and industrial development under Ethiopia's Five-Year Development Plan. It may not be used for purchases outside the bloc, but reportedly may be drawn upon for budgetary support. Ethiopia has also accepted a Czech offer to supply \$2 million worth of hospital equipment on credit. Subsequently, there were Czech offers for increased trade and for assistance reported worth \$20 million for industrial development.

12. Ghana exchanged notes with the USSR, East Germany, Poland and Hungary about the possibility of increasing trade and concluding formal trade agreements. A Ghana trade mission was sent to Communist China. In July two teams of technicians from East Germany and Poland arrived for the purpose of making surveys of industries which had been proposed for inclusion in the Second Development Plan. Poland reportedly has contracted to build several factories. East Germany has offered fifty scholarships for Ghana students, Czechoslovakia has provided five. Russia has bought for the first time 8,000 tons of Nigerian cocoa. Poland has opened a trade mission in Tunisia. Tunisia has renewed its trade agreements with the USSR and Bulgaria apparently providing for a doubling in the volume of trade in each case.

13. After a considerable delay, Libya accepted and then subsequently rejected a Soviet gift offer of two 50 bed hospitals. The hospitals were to have been built and equipped by the USSR but Libya firmly rejected Russian proposals to supply the staff. A further Soviet offer of economic and technical assistance is still under discussion. It is reported that Libya wants grant aid and will not accept credits. Czechoslovakia has also made some trade offers to Libya. In January Czechoslovakia was granted a contract to supply about 7,000 tons of sugar which could represent nearly one-third of Libya's sugar requirements. There have been some unofficial reports from Morocco stating that the USSR may grant Morocco a loan amounting to 150 million roubles. Morocco and Communist China have signed a trade agreement, exchanging phosphate and trucks against Chinese tea and silk amounting to \$11.3 million both ways.

14. Guinea has signed trade agreements with East Germany, Hungary, Bulgaria, Czechoslovakia, the USSR and Poland which may commit as much as 60% of the value of Guinea's exports in 1957 and 20% of her imports for the same year. Guinea's trading commitments with the Soviet bloc have made it difficult for some private traders in Guinea to conduct trade with the West. Reportedly, retail traders are feeling the competition of goods from the bloc, which are being sold at low prices in new-established government retail shops. Russia has extended a credit to Guinea amounting to \$35 million. Czechoslovakia has also extended a credit of an unknown amount for capital equipment.

15. The Czechs have delivered to Guinea two gift shipments of goods which included military components. Poland has given some highway equipment and East Germany has given six fishing boats and a radio transmitter. One hundred and fifty Communist country technicians are now in Guinea including at least thirty Czechs, two Russian oil experts and some East Germans. There have been reports that some of these experts may be employees or advisers in vital government departments including the Ministry of the Interior and the State Foreign Trade Agency.

Asia

16. Under the \$100 million credit agreement of 1954 between the USSR and Afghanistan the river harbour project at Qizil Qala on the Amur Darya has been completed 4 months ahead of schedule and will be the principal Afghan river port on the transit route to the USSR. In January, the USSR made a gift of 40,000 tons of wheat to Afghanistan. In May the Soviets agreed to build a 470 mile highway from the Soviet border at Kushka to Kandahar in southern Afghanistan. Both local and foreign exchange costs reported worth \$80 millions will be given as a grant by Russia. Russia will provide technicians and may also build an airfield in the South which had previously been almost free of Communist penetration, except for a fruit cannery which the Czechs are building in Kandahar. It has been reported that Russia is to supply some radio equipment and may also provide additional military goods to Afghanistan. Czechoslovakia is to build a second cement plant (to be finished by 1962) under the \$5 million credit of 1954; the first plant was completed in mid-1958.

17. The USSR is building three construction projects in Burma: a technological institute, a hotel in Rangoon and a 200-bed hospital at Taunggyi in the Shan States. All three projects are due for completion by the end of 1960. Burma will make payment for the foreign exchange costs through rice shipments to the USSR over a 20-year period. The Burmese Government has cancelled three other construction projects previously agreed upon and is not taking up two loan offers from the USSR to finance two irrigation projects and an agricultural implements factory. The Ne Win Government has announced a policy of seeking grant as opposed to loan-aid. In mid-1959 Burma's credit balance outstanding with the USSR amounted to about \$4 million. This will be increased if a contemplated purchase of 50,000 tons of rice by the USSR materialises. Burmese missions visited the bloc in June and in September in an attempt to make purchases and reduce credit balances with several bloc countries.

18. Russia agreed in January, 1959 to build a steel mill in Ceylon. The mill is to have a capacity of 35,000-50,000 tons and will cost \$20 million, to which the Soviets will contribute

probably about \$10 million. The financing of this project comes under the \$30 million Soviet credit agreement signed with Ceylon in February, 1958. A tyre plant, capable of producing 360,000 tyres a year will also be built under this credit agreement. Progress on any of the 16 projects, included under the Soviet credit, has so far been limited to the Kantalai sugar cane acreage project. Communist China and Ceylon have signed an air agreement and have signed the annual renewal of their five-year rice/rubber agreement. Ceylon is to receive a premium on the rubber sales as well as a grant of £1.1 million. There was an exchange of letters for a loan of \$1.4 million from China for repair of Ceylonese property damage done earlier by floods. Ceylon has purchased coal for its government railway from India this year in preference to Chinese coal, due to the poor quality of the latter.

19. Under the terms of the November, 1956 credit agreement with India amounting to \$126 million, the USSR is to build inter alia a thermal power station near Madras producing 250,000 Kw and costing about \$50 million. On 4th February, the first blast furnace at Bhilai was officially opened, and the entire project will be completed by mid-1961. Russia has extended a credit to India of 1,500 million roubles (\$375 million), to be used during the third Indian Five-Year Plan (1961-1966), and repayable over 12 years at 2½%. This credit is the largest yet extended by the Soviet bloc to an underdeveloped country. It is reported that this credit will cover inter alia a doubling of the capacity of the Bhilai steel mill and expansion in capacities of projects included in \$126 million credit of November, 1956. It is significant that Russia is extending credits for steel mills to India at a time when Russia is herself somewhat short of steel. Russia has also extended to India an additional \$20 million credit for developing her pharmaceutical industry; the offer of this credit had been previously reported. India and the USSR have signed an agreement calling for a Soviet credit of \$25.2 million for the building of an oil refinery at Barauni with a capacity of 2 million tons. This credit is believed to be in addition to the \$375 million credit, and only Soviet-financed costs exceeding the \$25.2 million will be financed from the \$375 million credit.

20. India has extended her trade agreements with Poland, Rumania, Hungary, Czechoslovakia and East Germany, and will export inter alia a substantial amount of iron ore to Czechoslovakia. It will be recalled, as mentioned in the last report, that India had already concluded agreements with Bulgaria, China and the USSR. The agreements call for balances to be settled by purchases of goods in debtor country; thus the USSR has agreed to accept Indian exports for repayment of all USSR credits.

21. The USSR has offered to train 500 Indian steel-workers

in Russia and Rumania is to train 100 - 200 Indian oil technicians. During 1959 three Indian teams visited Communist China to study methods in steel production, agriculture and irrigation. Poland is to build an electric meter factory in India as well as two other production plants to a total value of \$1 million. East Germany has been unable to deliver equipment for a raw film factory until 1964 and other countries will be invited to assist in this project. Czechoslovakia will build a small brick works and Hungary has submitted plans for a railway wagon assembly plant and a precision instruments factory. North Korea is to deliver 50,000 tons of fertilizer to India.

22. The economic and technical assistance agreements which were accepted in principle in 1958 between Nepal and the USSR have been officially signed. Nepal is to receive 30 million roubles as a grant and will use the grant for a hydro-electric plant, a sugar mill, a cigarette factory, a 50-bed hospital and a roadbed survey. The agreement acceded to Nepal's request to put aid on a grant basis.

23. Russia has been making deliveries to Indonesia under the \$100 million credit agreed to in February, 1958. Some road equipment has already been delivered under this credit and \$13 million have been drawn for the purchase of ships and textiles. \$30 million is to be used for the construction of steel works with an annual output of 50,000 tons. The Russians will extend a credit to build a stadium costing \$12.5 million for the 1962 Asian games and possibly a \$5 million technical institute at Ambon. These last two credits are additional to the \$100 million credit noted above. In the early fall of 1958 Russia agreed to a triangular commercial arrangement under which Indonesia would import 200,000 tons of Chinese rice on credit which would be repayable in raw materials or foreign exchange four months after the last shipment. Under this agreement most deliveries will take place in 1959. Indonesia has concluded a trade agreement with the USSR providing for the export of 20,000 tons of rubber to the USSR in 1960, but turned down a Soviet offer of a long-term rubber contract. Poland has extended a \$5 million credit for the construction of four small shipyards and repayable in eleven years at 5% interest. In January, Bulgaria and Indonesia signed their first trade agreement providing for an exchange of manufactured goods for agricultural products. The total value of Chinese credits to Indonesia is reported to be \$40 - \$50 million of which \$11.2 million are the rice and textiles loan. China has also delivered some planes to Indonesia. Hungary has offered to provide transport and telephone equipment. Czechoslovakia has just extended a new credit for the construction of a cement plant and for the purchase of delivery wagons. The amount involved is \$14 million of which \$10.5 million represents a credit. Czechoslovakia did not meet the Indonesian request for larger credits. She has also completed a tyre factory well behind schedule; a few Czech technicians will remain for one year to help operate the plant. The East German

sugar mill which failed to function in 1958 is now in running order. East Germany will buy all of its copra in 1959 from Indonesia. 52 Yugoslav and 51 Polish merchant marine officers are on a two-year service contract with the Indonesian National Shipping Corporation (PELNI) while Indonesian replacements are being trained. The arrival was reported of two destroyers, formerly part of the Soviet Navy, under the Indonesian-Polish naval agreement of 1958: this together with the delivery of two submarines, completed the implementation of this agreement. Indonesia has contracted to buy \$4 million worth of Russian engineering equipment for the army in the first direct military deal with the USSR since 1957.

South East Asia

24. The Chinese are continuing to make deliveries under the \$22.4 million grant to Cambodia. China has offered both a short-wave and medium-wave radio transmitter. Fifty Cambodian technicians are to be trained in China under the aid agreement. Work is continuing on the construction of a 500-bed hospital, a gift from the USSR. Russia is providing construction technicians and equipment, as well as consumer commodities for sale in Cambodia in order to finance local currency costs of the hospital. North Vietnam and Cambodia have signed a trade and payments agreement providing for trade up to a level of \$4.2 million. A mission from Cambodia has gone to Czechoslovakia with a view to increasing trade between these two countries.

25. On 17th January, 1959, Thailand banned the import of Chinese goods. In 1958 about 5% of Thailand's total imports originated from Communist China, about 4% of these via Hong Kong. Russia has bought rubber from Thailand for the first time since 1951. The Thai Government is concerned over Chinese rice exports and is reported to want to conclude long-term rice agreements to ensure markets for their rice in Hong Kong, Singapore and Malaya. Recently, however, China has been unable to deliver food to Hong Kong which has turned to Thailand, among others, for her supplies. Malaya's 1958 ban on imports of Chinese cotton textiles has been replaced by countervailing customs duties; and the Chinese, after having lifted their trading embargo early this year, recently re-imposed it for direct textile exports to the Federation: however, shipments are made through Hong Kong and Singapore. The USSR was the biggest buyer of Malayan rubber in the first four months of 1959. Singapore lifted its restrictions against Chinese imports early this year, and the Chinese called off their trade boycott against Singapore.

Latin America

26. About one-third of the \$100 million Soviet credit to Argentina has now been allocated to various projects. However,

none of these goods have been delivered as yet due to the hesitancy of Argentina. It has been reported that Argentina has asked the USSR to revise its oil prices in the light of market changes. Argentina is trying to reduce its credit balance with Hungary and is also reported to be examining a Hungarian offer to supply diesel locomotives worth \$23 million. Czechoslovakia is building a cement plant in Argentina at a cost of \$3.7 million with favourable terms of credit.

27. The USSR has signed a barter agreement with Brazil exchanging petroleum for cocoa. Russia has also made approaches to buy \$100 million worth of Brazilian coffee mostly in exchange for Soviet petroleum. East Germany has contracted for \$5 million of Brazilian coffee in exchange for machinery. Poland and Brazil have signed a payments agreement to facilitate payments on the delivery of Polish ships and possibly some rolling stock. It is reported that Chile is to export this year to the Soviet bloc 8,000 tons of copper sheet and 18,000 tons of copper wire to the USSR. Two high-ranking Chileans have made statements, possibly unofficial, calling for increased trade with the bloc. The Bolivian state petroleum agency YPFB has received informal Soviet bloc offers for economic and technical assistance.

28. The USSR sent 100 tractors and two threshing machines to the Mexican Communist Party, and these goods were intended to be exhibited in a May Day parade. However, according to latest reports, the Mexican Government has prevented the import of this agricultural machinery and the tractors have not since been released. It has been reported that Russia has offered \$70 million to British Guiana for economic development. Dr. Jagan, Minister of Trade, stated that aid would be accepted only if there were no political strings attached.

29. The Uruguayan State Petroleum Agency (ANCAP) has contracted for \$9.6 million of Soviet crude oil since the beginning of 1959. These purchases, together with deliveries still to be made under 1958 contracts, will fill about 30% of Uruguay's petroleum requirements for 1959. Uruguay has always looked to the West for petroleum and would prefer to make all future purchases from sources other than the Soviet bloc provided it can earn sufficient exchange and can arrange the necessary credit. In 1958, 13% of Uruguay's trade was with the Soviet bloc compared with 4% in 1957, and since October, 1958, 40% of wool exports have gone to the bloc. It has been reported that the USSR has offered Uruguay a credit of \$120 million for renovating her transport and communications system, with facilities of repayment in Uruguayan commodities. East Germany similarly has offered a credit of \$15 million, to pay for the delivery of agricultural machinery and fertilizers.

30. The Russians have bought 500,000 tons of sugar from Cuba at prices below the world market level at a time when they

have themselves just produced a record sugar crop. However, there might be bad prospects for the 1959/60 sugar crop in the USSR. Czechoslovakia and East Germany have been negotiating barter agreement providing for the exchange of Cuban sugar against machinery. Hungary and Rumania have agreed to provide industrial equipment to Columbia in exchange for coffee. The USSR has concluded trade agreements with Columbia, providing for an exchange of goods amounting to \$1 million annually.

Europe*Trade Agreement*

31. In May, Russia and the United Kingdom signed a five year trade agreement. There is a list of goods to be exchanged, but no total level of trade has been mentioned. The Federal Republic of Germany and the USSR have signed a new trade agreement which inter alia calls for less deliveries of Russian coal. A German-Polish trade agreement provides for increased shipments of Polish coal. The USSR and Finland have recently signed a new trade agreement for the period 1961-1965, providing for Finnish exports of ships and timber products against Soviet deliveries of petroleum, wheat and coal. The USSR will pay annually a sum of 40 million roubles in convertible currency as in previous agreements. According to an agreement signed in March, Finland will be able to repay in roubles her 1954 gold loan from Russia. China and Finland have signed a new trade agreement providing for the exchange of Finnish machinery, paper and copper for Chinese rice and antimony. Russia's purchases of salt herring from Iceland are down to one-third of their 1950 level, and this is causing marketing difficulties for Iceland.

32. In order to make use of credits at its disposal under the clearing agreement between Turkey and the USSR, the Turkish Government has bought equipment for three textile mills to the value of \$7.3 million. The contract which has not yet come into force provides for payment over 4 years. Greece has bought 250,000 tons of fuel oil from the USSR and this has helped balance the trade between these two countries.

33. Yugoslavia has signed trade agreements for the year 1959 with all the Sino-Soviet bloc countries, except North Korea and North Vietnam. In general, the levels agreed upon are lower than those anticipated last year, but above the levels actually achieved. It has been reported that the USSR, in the spring of 1959, has refused to sell 200,000 tons of wheat to Yugoslavia at world prices as previously agreed. Yugoslavia subsequently requested that the USSR substitute other commodities for wheat, in view of improved Yugoslav harvest conditions. Russia and Yugoslavia have had talks about the \$298 million of credits which were unilaterally postponed by Russia in 1958. Yugoslavia has been refused observer status in the CEMA.

34. At the meeting of the Economic Commission for Europe in April, the USSR made a number of proposals suggesting inter alia a Conference of Ministers on foreign trade, the conclusion of long-term trade agreements between East and West and the creation of a regional organization for all European trade. Thanks to close co-ordination of Western policy, none of these proposals had any success (1).

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(1) See AC/127-WP/33, 8th June, 1959; and AC/127-WP/39, 10th September, 1959.

TABLE 1

Estimate of Sino-Soviet Block Credits and
Grants Extended to Free World Underdeveloped
Countries
1st January, 1954 - 1st October, 1959

(millions of US Dollars)

<u>Recipient Countries</u>	<u>Economic</u> <u>Aid</u>	<u>Military</u> <u>Aid</u>	<u>Total</u> ⁽¹⁾
Grand Total	2,423	775	3,198
<u>Middle East and Africa</u>			
Egypt	343	315	658
Ethiopa	104	0	104
Guinea	35	0	35
Iran	10	0	10
Iraq	138	120	258
Syria	177	128	305
Yemen	44	17	61
<u>South and Southeast</u> <u>Asia</u>			
Afghanistan	211	32	243
Burma	34	0	34
Cambodia	35	0	35
Ceylon	61	0	61
India	724	0	724
Indonesia	267	163	430
Nepal	20	0	20
<u>Europe</u>			
Yugoslavia (2)	110	0	110
<u>Latin America</u>			
Argentina	108	0	108
Brazil	2	0	2

(1) Including grant aid to Afghanistan (\$84 million), Egypt (\$5 million), Cambodia (\$35 million), Ceylon (\$16 million), Nepal (\$20 million), Yemen (\$8 million) and Burma (\$30 million).

(2) Not including about \$354 million in credit extended in 1956 and subsequently either cancelled or allowed to expire.

Table 2

Estimated Share of Communist Bloc Members in
Total Sino-Soviet Trade (Exports and Imports)
with Underdeveloped Countries of the Free World

<u>Member of Sino-Soviet Bloc</u>	<u>Percentage Share</u>		
	<u>1954</u>	<u>1957</u>	<u>1958</u>
USSR	24.8	34.3	32
European Satellites	50.4	45.5	49
Communist China	24.8	20.2	19
	<u> </u>	<u> </u>	<u> </u>
Total	100.0	100.0	100
	<u> </u>	<u> </u>	<u> </u>
Total Sino-Soviet Bloc trade (exports and imports) with underdeveloped countries. (in millions of dollars).	870.5	1,763.1	2,129.0

Note:

Underdeveloped countries include: all countries in Central and Latin America; Africa excluding the Union of South Africa; the Middle East; Asia excluding Japan, Oceania excluding Australia and New Zealand; and Iceland, Spain, Turkey, Greece and Yugoslavia.

TABLE 3

Same Statistics on Free World and Sino-Soviet
Bloc Aid to Underdeveloped Countries

1954-1958

(Millions of US Dollars)

Country	1954-1957		1954-1958		
	Free World Bilateral Economic Aid(1) by governments <u>Grants</u> (1)	<u>Loans</u> (2)	1st July 1954 to 30th June 1958 <u>IBRD Loans</u> (3)	Total Sino-Soviet Bloc Economic Aid 1954-1958 (4) <u>Extended</u> (5)	
Total Free World aid to all under- developed countries	6,089.2	1,547.8	1,120.7	8,757.7	
of which:	800.0	238.7	430.6	1,469.3	1,589
to countries rec- eiving Soviet aid.					
<u>Middle East and Africa:</u>					
Egypt	61.5	5.5	-	67.0	373.0
Ethiopia	11.7	1.8	15.0	28.5	2.0
Iran	203.2	66.4	75.0	344.6	6.0
Iraq	10.7	0.2	-	10.9	-
Syria	0.7	-	-	0.7	177.0
Yemen	-	-	-	-	42.0
<u>South and South East</u>					
<u>Asia:</u>					
Afghanistan	7.9	19.6	-	27.5	127.0
Burma	15.4	-	19.4	34.8	34.0
Cambodia	91.2	-	-	91.2	34.0
Ceylon	21.6	-	17.4	39.0	58.0
India	307.2	-57.4(2)	232.4	482.2	304.0
Indonesia	34.1	- 2.1(2)	-	32.0	233.0
Nepal	15.2(3)	-	-	15.2	13.0
<u>Europe:</u>					
Yugoslavia	n.a	n.a.	58.0	58.0	110.0
<u>Latin America</u>					
Argentina	0.1	-33.2(2)	-	-33.1	104.0
Brazil	19.5	237.9	13.4	270.8	2.0

- (1) The definition of economic aid used in the source document excludes certain types of aid extended by Western countries, especially the United States. The figures given cover four fiscal years; grants or loans by the Federal Republic of Germany are excluded.
- (2) A negative sign indicates that repayments on outstanding loans exceeded new loans received.
- (3) Including a 9.9 million grant from India.

Sources: UN Statistical Yearbook 1958
IBRD: 13th Annual report, 1957-58

TABLE IV
SINO-SOVIET BLOC EXPORTS⁽¹⁾

January/June - Million US Dollars

	Russia		China		Poland		Czechoslov.		Rumania		Bulgaria		Hungary		E. Germany		Total	
	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959
Britain	62.4	56.5	15.7	22.8	36.8	46.1	8.4	11.8	3.7	2.0	2.0	1.4	4.8	4.2	4.8	6.5	138.6	151.3
W. Germany	40.6	46.6	23.9	31.1	25.6	39.9	22.7	24.4	14.1	11.5	4.3	5.5	11.9	19.6	94.0	96.8	237.1	275.4
France	51.3	57.7	6.0	6.1	16.1	6.6	12.2	7.2	7.9	7.5	4.8	1.5	4.2	3.2	4.6	4.5	107.1	94.3
Italy	14.5	33.6	4.6	5.9	5.9	10.5	6.1	7.3	5.4	5.9	2.9	4.2	7.5	7.0	2.0	3.2	48.9	77.6
Belgium	6.5	12.1	1.3	5.3	2.0	4.1	5.4	5.2	0.5	1.2	0.6	0.7	2.2	2.0	3.5	5.5	22.0	36.1
Netherlands	15.1	31.1	5.1	11.1	2.2	4.0	7.0	7.7	1.5	0.7	0.5	0.8	0.9	1.6	4.6	6.1	36.8	63.1
Norway	8.3	8.2	1.3	1.1	2.6	2.5	5.1	5.0	0.7	1.9	-	0.1	0.6	0.7	3.3	4.0	21.9	23.5
Sweden	13.7	24.4	1.2	2.7	7.0	9.2	3.6	4.6	-	0.2	0.1	0.1	2.2	1.9	6.6	6.2	34.4	49.3
Denmark	6.7	11.2	0.3	3.9	7.3	9.6	3.5	3.6	0.3	0.2	-	-	1.2	1.1	6.7	6.2	26.0	35.8
Austria	8.5	15.1	0.4	0.8	11.4	12.4	9.0	10.3	2.6	3.4	1.6	2.9	9.1	13.8	6.4	6.1	49.0	64.8
Switzerland	2.5	2.4	4.5	4.9	3.9	3.4	7.6	7.4	2.5	0.6	0.4	0.2	2.9	3.8	12.0	2.1	26.3	24.8
TOTAL:	230.1	298.9	64.3	95.7	120.7	148.3	90.6	94.5	39.2	35.1	17.2	17.4	47.5	58.9	138.5	147.2	748.1	896.0

(1) Western European Imports from Sino-Soviet Bloc

SINO-SOVIET BLOC IMPORTS⁽²⁾

January/June - Million US Dollars

	Russia		China		Poland		Czechslov.		Rumania		Bulgaria		Hungary		E. Germany		Total	
	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959	1958	1959
Britain	28.9	33.2	19.7	28.9	12.4	23.9	4.5	5.3	1.1	1.7	0.6	2.5	3.4	5.3	4.2	3.7	74.8	104.5
W. Germany	23.9	21.3	25.6	59.3	37.3	32.5	27.0	27.5	10.5	7.9	11.9	17.7	15.3	15.3	87.6	135.1	239.1	316.6
France	47.3	36.0	8.3	14.1	11.6	6.8	9.4	7.4	8.5	5.1	2.3	4.5	5.5	6.4	3.9	4.8	96.8	85.1
Italy	13.8	17.9	6.1	15.7	12.1	6.7	5.8	4.3	4.3	4.0	2.2	7.1	4.1	5.7	2.7	2.0	51.1	63.4
Belgium	11.4	4.2	9.4	14.4	8.0	7.3	5.6	5.0	0.4	1.6	1.2	2.4	3.1	4.1	3.8	3.9	42.9	42.9
Netherlands	3.5	6.7	3.9	18.1	5.8	8.4	4.4	3.6	1.1	0.5	0.6	11.6	2.1	1.9	8.4	5.2	29.8	56.0
Norway	7.0	8.6	0.2	4.0	1.5	1.0	4.1	3.4	0.6	1.3	0.1	0.4	0.7	0.7	4.6	3.3	18.8	22.7
Sweden	28.4	16.5	7.0	6.5	9.1	9.2	2.8	5.9	-	0.6	0.2	0.7	1.8	1.8	8.1	11.4	57.4	52.6
Denmark	8.1	4.4	0.8	1.4	4.9	5.3	2.0	3.6	-	0.4	-	0.3	0.8	1.3	5.0	6.0	21.6	22.7
Austria	7.7	15.5	1.5	4.5	18.9	9.0	9.5	7.7	2.8	1.6	2.3	4.0	9.9	12.6	6.8	6.3	59.4	61.2
Switzerland	0.7	1.6	14.5	15.4	4.8	4.9	6.1	5.9	1.0	1.8	0.5	1.1	2.9	3.1	3.0	3.1	33.5	36.3
TOTAL:	108.7	165.9	97.0	182.3	126.4	115.0	81.2	79.6	30.3	25.9	21.9	52.3	49.6	58.2	138.1	184.8	725.2	864.0

(2) Western European Exports to Sino-Soviet Bloc

Source: East-West Trade News