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COMMITTEE ON SOVIET ECONOMIC POLICY
SOVIET MOVES VIS-A-VIS THE OUTSIDE WORLD

Note by the Secretary

At its meeting on 11th December, 1956 (1), the Committee decided that the International Staff should produce for discussion early in 1957 a detailed study on Soviet moves vis-à-vis the outside world, based on material contributed by delegations.

2. This study is herewith circulated to delegations. It will be discussed at the Committee's next meeting, a date for which will be proposed in the near future.

(Signed) K.H. BEYEN

Palais de Chaillot,
Paris, XVIe.

(1) AC/89-R/14, Item II

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SOVIET MOVES VIS-A-VIS THE OUTSIDE WORLD

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SOVIET MOVES VIS-A-VIS THE OUTSIDE WORLD

Summary

The economic activities abroad of the Soviet bloc pose a major political and strategic threat to the outside world. Since 1953, footholds have been secured in the Middle East, in Asia, and in Latin America: communist trade with underdeveloped areas has more than doubled, and about one billion dollars in credits have been granted. 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 the appreciable expansion in Sino-Soviet bloc foreign trade in recent years, the total trade is still relatively small, but the increases in Soviet influence appear to be out of all proportion to the amounts of trade involved or credits granted. The most recent evidence shows that the intensity of the drive has not slowed down.

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 for the purchase of communist country capital goods are made to underdeveloped areas. Arrangements are made by the Soviet bloc for bulk purchasing of raw materials, usually on a bilateral and barter basis, tying up a significant portion of the export surplus of the underdeveloped countries for long periods of time. Technical aid is provided in connection with the deliveries of capital goods, while students from some underdeveloped areas are trained in communist countries. In some areas, the Soviet countries have delivered arms against future delivery of raw materials. Prices paid by the Soviet countries for raw materials under bilateral agreements are often above world market quotations because of the barter nature of the trade and the difficulty of assessing the world price of Soviet exports, it is not easy to decide whether the trade results in any price premium to the underdeveloped areas. 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 this new activity, at least by the USSR, it nevertheless is 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 capital goods. This has made trade with underdeveloped areas more attractive to the Soviets. Indeed, for the European satellite countries, economic motives may well be the main reason for this new trade. Political outbursts in Poland and Hungary within the past year have pointed up economic difficulties in the satellites resulting at least in part from the disruption of trade ties with the West.(1)

(1) AC/89-D/13

5. Trade prospects between the Soviet bloc and the outside world are not clear at the present time. The European satellites have been the main traders for the Sino-Soviet bloc, while the USSR has granted the major share of the loans. The five-year plans of the European satellites are being revised sharply downward, and it is not unlikely that the satellites will attempt to expand their trade with the outside world. However, it is clear that the satellites will be unable to grant credits in an attempt to capture new trade.

6. Even if the USSR does not fulfil its present five-year plan, there will nevertheless be available a larger quantity of capital goods from the growing industrial production. The Soviet Union will require greater amounts of raw materials to support its growth in industry. In any expansion of trade, the rapidly increasing numbers of scientists and engineers graduating yearly from the Soviet Union will be available to service capital goods abroad. 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.

7. On the other hand, the economic difficulties of the Western European satellites not only detract from their ability to grant credits, but have also forced the USSR to grant large-scale loans to the satellites. This may reduce Russia's willingness to grant credits to underdeveloped areas. At the same time, the Soviet repression in Hungary may have dampened the enthusiasm of many countries to tie themselves economically to the Soviet bloc. However, 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 its trade with underdeveloped areas, the dividends paid hitherto have been so great that an intensification of effort along these lines should be expected. For the satellites, economic pressures will push them towards seeking expanded trade with both underdeveloped areas and Western Europe.

Background Developments

8. 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. The imports of these capital goods were paid for largely by exports of grains and industrial materials. It was never the long-run intention of the Soviet planners to rely 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 trade. By 1948 trade within these countries was about 40% of the total trade, even before freedom controls on exports of strategic goods had been instituted. In 1953, the proportion of intra-Soviet bloc trade had reached one-quarter of the total trade.

9. The turning point in Soviet foreign economic policy may be marked in 1953, following upon the death of Stalin and the emergence of new leadership. Some indications of a change, however, were seen earlier when the USSR convened an International Economic Conference, primarily of Western businessmen, in Moscow in April 1952.

10. The factors that brought about the present policy were various. The Soviet acceptance of the fact that the two leading powers had reached a nuclear stalemate implied the use of other means in the achievement of communist aims. At the same time, the lessened fear of war made economic trading a more acceptable practice to Soviet leaders, while the original Malenkov "soft policy" resulted in the import of consumer goods. Lastly, long-term developments within the Soviet economy itself fitted in well with a policy of expansion in trade.

11. 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, especially since the agricultural programmes had not met with the intended success. The strides made in industrial development in the Soviet Union, as shifts occurred from the primary industries toward manufacturing, resulted in a greater availability of capital goods. It is estimated, for example, that certain portions of the Soviet Union's heavy industry compare favourably both in quality and quantity of output with those of the United States. This availability of capital goods provided a basis for trade, particularly since evidence points out that capital goods, notably steel products, are being produced relatively cheaply in the Soviet Union compared with industrial raw materials. Thus, an expansion of trade with underdeveloped areas which at the same time furthered the general aims of the communist countries was also adapted to their economic developments.

12. It is fairly clear that economic motives for 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 on and aggravated by a number of factors: the shift in composition of industrial output to heavy industry, the consequent cutback in consumer goods production, the failure of the agricultural programmes to materialise, and the export of certain materials to the Soviet Union. The postwar economic integration of the Soviet bloc has in reality meant only a shift in trade from Western Europe to the Soviet Union. Available evidence suggests that the Soviet bloc countries are not self-sufficient in many industrial raw materials, particularly textiles, and trade appears to be the only solution capable of providing these necessary resources. The position of foreign trade in the Chinese economy is not too clear, but it is evident that rapid industrial expansion will call for greater trade, whether with the Soviet bloc or with the outside world.

13. The Soviet policy of penetration not only fitted in with certain economic changes in the Soviet bloc, but was 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 creates a sizeable part of the available foreign exchange. In the past few years, as both the demand and the price for some of these conditions have fluctuated, surpluses have been built up. Possibilities of stabilised bulk sales fit in well with any long-run industrial planning, and, given the present environment of

ationalism in these underdeveloped countries, this appears to these countries as a most desirable means of importing capital goods. It may even be felt that this represents an advantage over aid, which to many underdeveloped countries may be suspected of political ties.

14. The exploitation by the Soviet bloc of feelings of nationalism and anticolonialism is effected at every opportunity. The tremendous industrial expansion undergone by the Soviet economy in the past thirty-five years is pointed up as an example of the superiority of communism. Again, any difficulties encountered by underdeveloped countries in the disposition of their surplus products on world markets are doubtless exploited fully by the Soviets by way of proving the merits of long-term bulk purchasing. With such an apparent desire by the Soviet bloc to assist the underdeveloped areas in attaining a state of industrialisation and economic maturity, it is hoped to win converts to the communist philosophy. Indeed, even countries committed to Free World military pacts, such as Turkey, Iceland and Pakistan, have been subjected to this economic diplomacy with a view to strengthening neutralist feelings in these countries.

1. Developments in Trade

15. The most salient feature of Soviet group trading in the postwar period has been the sharp reduction in European satellite trade with the outside world, which fell from about three-fourths of satellite trade before the war to less than one-fourth at present. The same development occurred in Communist China, where, following the conquest of the mainland in 1950, foreign trade was reorientated. Between 1950 and 1952, China's trade doubled; in 1952 about three-quarters was conducted with the Soviet bloc compared with about one-quarter only two years previously.

16. The sharp expansion in Sino-Soviet bloc foreign trade can be seen in the following table:

Trade of Sino-Soviet Bloc with Outside World

	<u>Exports</u> (millions of US 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).

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Imports (millions of US 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 with the Sino-Soviet bloc increased by less than one-fifth, while trade with the outside world rose by more than two-fifths. The entire Soviet bloc has put great emphasis on the development 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 underwent a five-fold expansion during the same period. The share of Soviet bloc trade with the underdeveloped countries rose from 28% to 33% of the 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 still accounted for two-thirds of the bloc's East-West trade in 1955, and had risen by one-quarter in value from 1954 to 1955. Thus an expansion of trade with underdeveloped areas, which furthered the general aim of the communist countries, was also adapted to their economic development.

17. Much of the increase in the export trade of the 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.

18. Despite the appreciable expansion in Sino-Soviet bloc foreign trade in recent years, the total trade is still relatively small. For example, the 1955 East-West trade turnover of more than 4 billion dollars amounted to only about 2 1/2% of total world trade. Overall, East-West trade is only 3% of Western Europe's total trade, although for some West European countries the share is higher. On the other hand, East-West trade is about one-quarter of the satellites' total trade. One of the outstanding features of total East-West trade is the large fluctuation in composition. For example, communist exports of foodstuffs as a proportion of total exports have varied from 16% to 60% in

recent years. The Soviet bloc import pattern has likewise varied, with raw materials fluctuating 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.

19. 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 special factors or traditional trading accounted for this. For example, the peace treaty arrangements with Finland and Austria have resulted in commercialising certain reparation payments. In the case of Finland, a high-cost shipbuilding industry was established originally for reparations, and this sector 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.

20. Trading by communist countries in the Middle East, Africa and Latin America is dominated by 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.

21. It is difficult to establish the precise balance of payments position of the Soviet bloc, particularly since the trade data have to be derived from sources in other countries. This, along with little information on invisible earnings and payments, permits only the most general conclusions to be drawn. On the whole, it appears as if 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 only.

III. Methods Employed by the Communist Countries

22. The methods employed by the Soviet bloc in their 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 send their technicians into a country. A recent East German project to build a bridge in

Sweden has met with protests from Sweden, as unreasonably large numbers of East Germans have entered the country, ostensibly as workers. 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, trading 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 reinforced by other measures, including trade fairs, the opening of trade offices, cultural exchanges, and the use of communist technical experts in the underdeveloped country. In some cases, offers to sell arms on credit terms are associated with the economic agreements signed.

(1) Credits

23. The issuance of credits has been a new technique utilised by the Soviet group. Prior to the new economic policy, the USSR had granted credits to satellite members only, with 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, in fact, the USSR had almost ceased loans to the satellites, and was instead extending credits on a large scale to underdeveloped areas. At the same time, the satellites themselves extended to underdeveloped regions 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 in 1956, so that, in the near future, the programme of credits to underdeveloped areas will likely be carried out by the USSR itself.

24. 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 these credits are tied to purchases in the country of origin, although some small exceptions have been reported, 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 from the programme.

25. The Soviet Union should not have any difficulty in meeting its commitments for capital goods exports arising out of its credit programme. The present credits drawn upon for three-year period represent about one and a half per cent of the USSR's annual capital goods output. The Soviet Union is the second largest industrial producer in the world, with a level of output approximately equivalent to that of the United Kingdom and West Germany combined. The centralised control of the Soviet economy means, moreover, that greater proportions of industrial output can be diverted to alternative uses, more so than in Western democracies. It is apparent that the present programme could be met and, if the Soviets chose, could be expanded.

26. The same conditions do not hold true for the European satellites. Recent unrest and revolt, the resumption of credits from the USSR, shortages of energy and the consequent inability to meet internal needs, revisions of five-year plans, all point to serious economic problems and shortages of capital in the satellites. While exports of capital goods, through 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 the satellite peoples. Increased trade on a cash basis would likely be preferable for the satellites, but this may not be readily achieved.

27. The Soviet group's total credits, if drawn upon in three years, would amount to about \$0.4 billion per year, while the Western countries invest, lend or donate at least \$2.8 billion per year to underdeveloped countries.(1) Though the total Soviet bloc credits may appear small, the way in which they are used is of great significance, since great publicity accompanies all loans to underdeveloped countries.

(ii) Trade Agreements

28. The Soviet bloc trade expansion has been associated with a rapid increase in 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 than the USSR, despite a higher level of trade by the latter. These agreements arranged for trading Soviet capital goods against primary commodities. Many of these commodities, such as cotton and rice, form a large part of total production in underdeveloped countries, and have in recent years proved difficult to sell in traditional Western markets. As a consequence, rapid inroads have been made in economic relations with countries such as Egypt and Burma. For example, the Soviet bloc's share of Egyptian cotton exports rose from an average of 13% from 1946 to 1954 to 40% in the second half of the year 1955. Although for the most part these purchases have been made to meet needs in communist countries, there is evidence that some of the commodities are resold to third parties, as in the case of the Hungarian purchase of rice from Burma. These re-exports may be made to acquire foreign exchange, or perhaps to rid communist countries of stocks acquired for political purposes.

29. Political advantages were secured by the Soviet bloc through its pricing arrangements. Often prices paid to underdeveloped areas may be in excess of those on the world market or, 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 necessary to know the prices charged as well as those

1) See OELC C(56)243

paid before any conclusion regarding net gains can be drawn. To this extent, it is not possible to state definitely whether or not underdeveloped areas have benefited. In the case of Ceylon, for example, a long-term deal with China, trading rubber for rice, resulted in favourable returns to Ceylon. On the other hand, Burma has shown displeasure in its rice deals with the Soviet bloc, which have resulted in Burma reselling at a heavy loss some of the cement received in exchange for rice. For 1957, Burma and the USSR have agreed to trade only 50% of the amount of rice originally agreed upon. Judging from available reports, it would appear that underdeveloped countries have not obtained any premium in their trade with the Soviet bloc.

(iii) Technical Aid

30. The provision of Soviet bloc skilled technicians 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. For the first time in 1953 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 of this training include Egyptian nuclear physicists as well as Indian professors from the Bombay Technological Institute being trained in the Soviet Union.

31. At the same time, many Soviet bloc technicians, mainly from Czechoslovakia and the Soviet Union, have appeared in underdeveloped countries. India, Burma, Afghanistan and Egypt have received the largest numbers of these technical experts, while at least eight other countries have had assistance. Training on the spot, in underdeveloped countries, 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.

32. The communist countries take advantage of all opportunities arising from the United Nations Technical Assistance Programme and regional economic commissions to promote visits of personnel from underdeveloped areas to the Soviet regions. Invitations have been given for inspection tours of the Soviet bloc, with expenses paid.

33. 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 if no comparison with Western countries is available. Further, the use of Soviet-trained technicians in a country may promote the future sales of Soviet capital goods. The communist countries are probably in as good a position today as the Western powers in the supplying of 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, while in the Soviet Union alone as many scientists and engineers graduate yearly as in all NATO nations combined.(1)

(iv) Trade Fairs

34. Participation in trade fairs has played an important rôle in the communist economic offensive. In 1955, for example, 149 Soviet bloc trade exhibitions - more than the total held in the previous four years combined - were held in 41 countries. Though a major share of communist trade is with Western European countries, it is in underdeveloped areas that the greater number of trade fairs has been held. Reflecting the importance of trade for the satellite countries as distinct from the USSR, the most important exhibitors have been Czechoslovakia, East Germany, Poland and Hungary. The USSR and China exhibited to a lesser extent.

35. The greatest participation by the Soviet bloc in a non-communist country in 1955 took place in India, while considerable attention was also paid to Pakistan, Indonesia, Egypt, Syria, Yugoslavia and Turkey. At many of these fairs, spectacular eye-catching displays have been put up to demonstrate such things as large-scale hydroelectric developments. While future sales of capital goods may arise from these displays, the publicity effects for political purposes have not been overlooked; the demonstration of spectacular industrial achievements by communist countries has been designed to impress citizens of underdeveloped countries. The size of the pavilions is also designed to impress the nationals of the country. For example, at the Djakarta, Indonesia, fair in August 1955, the Czechoslovakian exhibit was three times as large as that of the United States.

(v) Concentration on Specific Countries

36. 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 in an attempt to weaken their ties to Western defensive pacts or to win neutralist opinion over to Soviet bloc sympathies (such as Yugoslavia, Finland, Egypt, India, Burma, Afghanistan and Indonesia). While it is not possible to assess the inroads, if any, achieved in these countries, substantial gains have been made in most of them in matters of trade. Soviet group agreements to purchase Egyptian cotton, Burmese rice and Icelandic fish have helped tie these countries to some extent at least to the Soviet bloc economy. 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. It has been estimated, furthermore, that about one-half of Afghanistan's foreign trade is presently with 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 experiences in the uses of atomic power, the gift of equipment for a large Indian state farm, have had considerable propaganda effect.

(1) See C-M(56)128

IV. Co-ordination

37. The entire programme 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. Up until the end of 1955, there did not appear to be any significant co-ordination within the entire Soviet bloc, but in the spring of 1956 the hitherto dormant Council of Economic Mutual Assistance (CEMA) held a meeting. It was reported that plans were laid for co-ordinating the foreign economic policies of the entire bloc, probably under Soviet direction. The general economic policies and the various five-year plans were to have been geared together to provide for national specialisation of production, although competitive bidding for foreign contracts was not precluded. It is not possible to suggest what effect recent events in the satellites have had on this programme, but it is certain that any plans drawn up will be drastically revised.

V. Future Possibilities

38. The impact of recent developments in the satellites makes it difficult to distinguish a line of future behaviour. Nevertheless, the possibilities of Soviet bloc foreign economic policy are likely to be guided by several underlying factors. Indications are that an increasing amount of capital goods will be produced and could be made available for underdeveloped countries. At the same time, the bloc's needs for industrial raw materials will grow, and revisions to the various five-year plans do not make it possible to assess the demands of the Soviet bloc in the coming years. However, for the European satellites, it is likely that their need for raw materials will increase and they will be called upon to increase trade to acquire these necessary materials. Their current economic difficulties will limit the amount of credit that they will be able to extend to underdeveloped areas. The Soviet Union, moreover, will be faced with the problem of providing credits to both the satellites(1) and underdeveloped areas. In addition, there is the possibility that Soviet repression in Hungary might dampen the enthusiasm of some countries for an expansion of trade with the Soviet bloc, but available reports do not suggest any such developments as yet.

39. On the whole, it would appear that great efforts by the Soviet bloc will be made to expand trade in the next few years - such expansion in the past has paid handsome dividends in carrying out the general policies of Soviet countries.

40. Trade with Western Europe will continue to absorb the greater volume of Soviet bloc trade and may even expand in the near future to satisfy the satellites' growing needs for consumer goods. In the long run, however, greater need for industrial raw materials and foods by the Soviet bloc may increase communist dealings in underdeveloped countries more rapidly than with the West. There is even the possibility that there will be a greater participation by satellite countries in trade with underdeveloped areas, with a view to re-exporting some of the raw materials to

(1) See AC/89-D/13

Western countries for consumer goods. The advantages of expanded trade will be pointed to constantly by the communists as an argument in favour of the removal of Western controls on strategic goods, and much propaganda will be used in an appeal to governments and businessmen.

41. 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 greater flexibility in trade policy. State trading organizations make it more convenient to negotiate for bulk purchases of raw materials from underdeveloped countries in exchange for capital goods sold on credit. Since most of these raw material purchases are marginal to the Soviet bloc, agreements can be made by the communist countries with the underdeveloped areas, without the same considerations of interest rates, price flexibility and inventory holdings that many smaller-scale buyers in Western countries must take into account. Finally, their large annual turnout of technicians and scientists the Soviet bloc will permit them to follow up their capital goods contracts with trained personnel for installation, instruction and operation.

VI. Developments in Specific Areas⁽¹⁾

Europe

42. The Western European market has provided about two-thirds of the Soviet bloc's foreign trade in the past few years. Trade between the 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 Soviet exports to the West were more than offset by a sharp rise in imports.

43. For political and strategic reasons, communist policy has been aimed at Yugoslavia, and the Soviet bloc has granted large-scale credits to this country. At the same time, 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. 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 UK-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. Soviet bloc trade is a relatively small portion of most European countries' total trade, with the exceptions of Iceland, Austria, Finland and, recently, Yugoslavia.

44. The Soviet bloc has paid considerable attention to international organizations and has tried to further communist interests through the ECE by proposing payments schemes and other forms of economic co-operation. The discussions on the payments scheme have been postponed indefinitely.

(1) For developments in particular countries, see Annex I.

The Middle East and Africa

45. The large expansion in Soviet bloc trade with the Middle East is marked by the increase in trade agreements from 7 in 1953 to 31 in 1955. The greatest measure of success appears to have been achieved in those countries which were experiencing balance of payments difficulties, had no oil revenues, and were not committed to Western defence alliances. Egypt and Syria were the most prominent among the Middle Eastern countries where communist influence grew, and this was partly related to arms deals made with the Soviet bloc. The increases in communist trade with Egypt have been phenomenal, and in the first half of 1956 two-fifths of Egypt's exports went to the Soviet bloc. Although the rise in imports from communist countries has not been as dramatic, it is evident that Eastern European goods are replacing traditional sources of supply in Western Europe. Less success was achieved in those countries receiving oil revenues, and in the overseas territories of Western powers. However, the communist countries expanded economic relations with Turkey and Iran in an attempt to weaken pro-Western and strengthen neutralist opinion. Large-scale credits were given to some countries, and the entire battery of trade agreements, technical assistance and trade fairs was used.

46. Whereas, prior to 1953, only Turkey, 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. There has also been a shift in the nature of trade. Previously, Soviet countries' oil and consumer goods were traded for agricultural products, including cotton and rice. The new pattern involves Soviet bloc capital goods and arms, in barter exchanges for agricultural commodities.

South and South-East Asia

47. 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. About \$300 million credits have been granted to India, much of which will be used to expand steel capacity. Credits of more than \$100 million to both Indonesia and Afghanistan have been granted by the Soviet bloc. The bulk of these credits have been granted by the USSR, and their size and nature reflect political motives. For example, the 30-year \$100 million credit to Afghanistan was certainly dictated by more than commercial considerations. This contrasts with the activities of the European satellites in their trading in the Middle East and Latin America. Large-scale purchases of rice from Burma in 1955 provided the basis for expanded economic relations between Burma and the communist countries.

Latin America

48. 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 rôle 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. The 1955 trade of \$340 million was one-third higher than that of 1954 and represented a five-fold gain over 1953. While the level of trade was only 1% of the Latin American total, it was nevertheless important for a few countries, including Argentina, Brazil, Uruguay and Cuba. The European satellites, led by Czechoslovakia and Poland, signed a number of trade agreements with countries in Latin America, beginning with Argentina in 1953, and followed this up with great activity in trade fairs, along with large-scale publicity and propaganda. While at first orders taken were often not fulfilled, it appears that recently a more realistic and businesslike approach has been adopted by the communist countries. Relations with this area do not include any elements of technical or economic assistance, and no arms deals have been reported with the exception of a Czech shipment to Guatemala in 1954.

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ANALYSIS OF INDIVIDUAL COUNTRIES

Europe

1. Iceland, which had been facing currency shortages and had difficulties in adjusting her internal price level to the needs of foreign trade, 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 1955 absorbed 28 per cent of total Icelandic exports. In November, 1956, an agreement was reached between Iceland and the British Trawler Association, permitting the entry into the United Kingdom annually of £1.8 million of fish. This would represent about 10 per cent of Iceland's current exports. However, the current prices of Icelandic fish appear to be too high to be competitive, and, it is not likely that the permissible value of exports will be attained.

2. 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 bloc, 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.

3. 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.

4. 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 disappeared completely, after having been close to one-half of total Yugoslav trade in 1948. The dispute appears to have been healed by 1955, when 10% of Yugoslav exports went to the Soviet bloc. In 1956, it appears that trade with the bloc may have doubled, and perhaps one-sixth of Yugoslav trade will be with the Soviet bloc. Trade agreements have been signed with all of the satellites and with the USSR.

5. The Soviet bloc, led by the USSR, has granted large credits to Yugoslavia, amounting to \$300 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 for transportation equipment.

Other arrangements have involved technical and scientific co-operation with the Soviet bloc, as well as some discussion 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. The recent hardening of relations between Yugoslavia and the Soviet bloc may well affect the expansion of trade relations between these countries. It also remains to be seen whether the credits arranged will be drawn upon, and if the satellites will be willing and able to fulfil their commitments. In February, 1957, a previously agreed upon \$175 million joint loan from USSR and East Germany for an aluminium plant was cancelled when the Russians were unwilling to meet their previous commitments.

6. At the April 1956 meeting of the Economic Commission for Europe a proposal was made by the Soviet delegates 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 Soviet trade proposals might undermine existing economic structures, such as the OEEC, if carried out literally. It appeared to be Soviet policy to hold out promises of expanded trade and attempt to disrupt the Western Alliance. There have also been some discussions regarding an East-West payments scheme, to provide multilateral payments of trade accounts between Eastern and Western Europe. Recently, however, these discussions were indefinitely postponed.

The Middle East and Africa

7. The most spectacular advance in the Middle East has been made in Egypt. In 1953 Nasser was still being attacked in the Soviet press, but by 1955 he was being praised by it and several trade agreements between Soviet countries and Egypt had been arranged. In 1955, difficulties in marketing the Egyptian cotton crop in a slumping world market provided the opportunity for the Soviets to arrange a barter agreement for arms. A credit of about \$200 million was arranged for purchase of these arms through Czechoslovakia, although the deal was actually financed by the

USSR. Along with this arms agreement was provision for training of Egyptian military personnel in Czechoslovakia, Poland and the Soviet Union. It also appeared that the Egyptian cotton to be delivered was purchased at higher than world prices.

8. By the end of 1955, Egypt had trade agreements with most bloc countries; in the last six months 40% of her cotton exports went to the Soviet bloc. For the year 1955 as a whole, over one quarter of total Egyptian exports went to the bloc, twice the proportion of 1953. Czechoslovakia had delivered the first of several swing bridges, as well as railroad equipment. Hungary had made arrangements for construction of bridges and a power station, and the Soviet Union had offered to build a nuclear physics laboratory in Egypt. In June 1956, Shepilov 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. 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 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 sources and replaced them by Soviet contracts, in line with a policy of diverting trade from "unco-operative" Western nations. Russia is still actively pursuing its policy of penetration in Egypt, as witnessed by the large Soviet exhibits at the recent Cairo trade fair. The USSR has promised to Egypt as a gift all of its equipment on display at the fair.

9. 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 (in 1955 exports and imports to the bloc accounted for 1% and 3% of total trade respectively), but since the latter part of 1955 trade agreements have been signed with eight Soviet bloc countries. Soviet influence has been increasing, and in late 1956 it was reported that 20% of the Syrian cotton crop was sold to the Soviet bloc. These cotton sales were probably made to pay for arms which Syria has received from Soviet countries. Other Soviet bloc proposals include those of Czechoslovakia to construct an oil refinery and a sugar factory, and a bid by East Germany on 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.

10. It is not known what financial arrangements have been envisaged for the payment of these proposed schemes. 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 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 has strained the Syrian balance of payments.

11. 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 accepted.

12. The other Middle Eastern country having traditional trading relations with the Soviet bloc is Iran. 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 joining 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, following a visit by the Shah of Iran to Moscow in June 1956, the trade agreement was renewed, illustrating the Soviet policy of attempting to win over fringe countries in Western defensive alliances.

13. Activity of Soviet bloc countries in Israel has been expanding slightly, but these countries absorb only about 2% of Israel's foreign trade. While the Soviet bloc had no trade agreements with Israel in 1953, by the end of 1955 there were five in existence. At the Posnan 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, all Soviet oil agreements with Israel were cancelled by the USSR at the time of the Suez invasion, and trade has ceased between these two countries at the present time.

14. The Lebanon has been another area for Soviet bloc activities. Faced with a balance of payments problem and high-cost exports, the Lebanon 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 effected agreements. It was expected that these agreements would 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.

15. 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, when Czechoslovakia agreed to trade machinery for phosphates. A Polish contract to survey the Hejaz railroad was cancelled in June, on the grounds of a protest by Saudi Arabia. A small amount of Soviet aid has been offered, to be instituted through the FAO, although it is not known whether this has been accepted. The expected ending of the British subsidy has no doubt created a financial problem of the first magnitude. It remains to be seen whether the agreement signed between Jordan and Egypt, Syria and Saudi Arabia can be effectively carried out.

16. In Saudi Arabia itself, 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. There have also been visits by Chinese and Polish economic missions, while Czechoslovakia and Poland have tendered for the construction of a railroad from Rujad to Jodda, a distance of 1,600 kilometres.

17. 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 has severely reduced Iraqi revenue, but a sufficient reserve of foreign exchange appears to be available to permit continuation of development plans, without immediate recourse to borrowing from abroad.

18. 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.

19. The Sudan, whose trade with the Soviet bloc in 1955 was insignificant, had signed four trade agreements with Soviet satellites in that year. Some economic and technical assistance for power-generating facilities offered by the Soviet Union in 1956 has been accepted. It was also reported that the USSR and Bulgaria were active in 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

20. 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 oils and to import machinery for transportation facilities, 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. Recently, considerable activity has been undertaken by Russian and satellite technicians in assisting with oil explorations and developments, using Soviet bloc equipment. In July 1956, two delegations visited China to study agricultural developments. The latest move occurred in November 1956, when 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 these loans 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 available trade data in 1956, which show a rise in Soviet bloc share of trade from 1% to 3% for the first seven months of 1956. This may be expected to go higher in the future.

21. Economic penetration has proceeded the furthest with 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 payable 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 aided 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, when the loan announcement was made, the Soviet Union donated a hospital and 15 buses for 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, owing to the 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.

22. Certain unsatisfactory developments for both parties have occurred in communist trading relationships with Burma in the past two years. 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 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 was 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 disadvantageous 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 the barter terms of trade were quite unfavourable to them, and were unhappy about 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 at a loss to India. Finally, the 1956 improvement in the cash market for rice, particularly with India, caused Burma to reconsider its agreement with Russia, so that deliveries of rice to 30th September totalled only 260,000 tons. It is not known what effect the various import orders from the bloc will have upon Burmese export commitments, but it is clear that there is not sufficient rice to meet new cash agreements as well as barter commitments. It has been reported that Russia has agreed to take delivery of only 200,000 tons of rice in 1957. Other recent 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 a Burmese credit on Soviet account was transferred for use in Czechoslovakia to prevent a decline in the level of barter trade.

23. Some headway has been made in Sino-Soviet bloc dealings with Indonesia in recent years. From a share of about 1% in Indonesian trade up until 1954, the communists increased its 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. Previously, 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 recently, 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.

24. 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 put forth 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.

25. 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 expand 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 and the terms were quite favourable to Ceylon.

26. 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.

27. 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.

28. 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 quite specifically indicated that no commitments had been made to Communist China.

Latin America

29. Soviet bloc trade with Latin America is carried out mainly by the European satellites, with the USSR playing only a minor rôle. 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.

30. 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, the Soviet Union, as well as Argentina, failed to deliver more than half the required amount, 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.

31. The proportion of Brazil's trade with the Soviet bloc (mainly Czechoslovakia and Poland) 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 a request by Brazil for East Germany to join the Hague Club. In August 1956 a Soviet offer was made to build oil refineries and help in the development of an oil industry.

32. 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.

33. In 1955 and 1956, Cuba sold large quantities of sugar to the USSR; 6% of Cuba's export trade of 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 imported recently because of poor crops in the Ukraine.

34. 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 has had few economic dealings with the communist countries.

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

(millions of current US dollars)

	1938	1948	1950	1953	1954	1955(est)
<u>Intra Orbit</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
East-West	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-Orbit 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	0	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)

<u>Area of trade</u>	<u>1953</u>	<u>%</u>	<u>1954</u>	<u>%</u>	<u>1955</u>	<u>%</u>
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:	<u>3,010</u>	<u>100.0</u>	<u>3,590</u>	<u>100.0</u>	<u>4,453</u>	<u>100.0</u>

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

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Table 3. Credit Extended by Soviet Bloc to Underdeveloped Countries

1st January, 1954 - 31st December 1956

(millions of dollars)

<u>Recipient Area</u>	<u>Total Bloc</u>	<u>USSR</u>	<u>Satellites</u>
Middle East and Africa	<u>190</u>	<u>1</u>	<u>189</u>
Egypt	175	-	175
Iran	1	1	-
Syria	14	-	14
South and South East Asia	<u>504</u>	<u>446</u>	<u>58</u>
Afghanistan	121	106	15
India	273	240	33
Indonesia	110	100	10
Latin America	<u>19</u>	<u>4</u>	<u>15</u>
Argentina	19	4	15
Europe	<u>309</u>	<u>214</u>	<u>95</u>
Finland	20	20	-
Yugoslavia	289	194	95
Grand Total:	1,022	665	357

Table 4. Soviet Union Intra-Orbit Credits

Country	Credits Granted 1946-1949			Credits Granted 1950-1957		
	Dates	Amts. \$mill. (1)	Interest Rates %	Dates	Amts. \$mill. (1)	Interest Rates %
East Germany	-	-	-	1950-56	435.0 ⁽²⁾	2
Holland	1947-48	500.0	2	1956	275.0	n.a.
Czechoslovakia	1947-49	250.0	2-3	-	-	-
Hungary	-	-	-	1954-57	300.0	n.a.
Rumania	1946-47	30.0	n.a.	1956	100.0	-
Bulgaria	1947	5.0	n.a.	1956-57	142.5	2
Albania	-	-	-	1951	n.a.	n.a.
Yugoslavia	-	-	-	1950-56	1,055.0	1
Total:	-	785.0	-	-	2,307.5	-

(1) at official rates of exchange

(2) excluding loan reported to have been offered in August, 1956, for the purchase of goods from the Soviet Union.

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Table 5. Trade and Payments Agreements of Outside Countries with the 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

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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>Free 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.

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

Country	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
Finland	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
Syria	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
India	1.3	1.6	2.1	2.7	.7	.9	1.7	4.0
Burma	.5	.3	19.0	n.a.	1.2	2.6	2.2	n.a.
Ceylon	15.6	12.3	6.3	11.7	13.5	11.3	6.0	5.2
Indonesia	.5	1.1	3.6	3.4	.9	2.4	6.6	5.5
Argentina	2.1	7.8	7.4	n.a.	1.8	7.1	8.2	n.a.
Brazil	.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
Cuba	.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 Nov. 1956