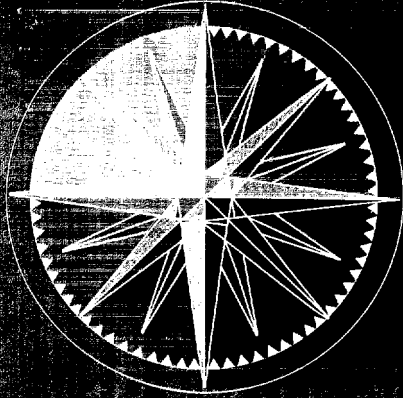


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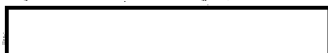
# SPECIAL REPORT

SOVIET INTERNATIONAL ECONOMIC POLICY

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE

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MORI/CDF Pages 1 thru 7



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2 July 1964

**SOVIET INTERNATIONAL ECONOMIC POLICY**

The USSR continues to use foreign aid and trade to expand its influence, but the concepts underlying this program have undergone modification. Few of the current aid offers are made only for propaganda value, since Moscow has found exploitation of political and economic chaos in emerging countries often unrewarding. The USSR is, consequently, displaying an increasingly responsible attitude in its foreign economic programs in the hope of assuring long-term gains in underdeveloped countries. Aid programs to both underdeveloped nations and Communist countries now are a permanent feature of Soviet foreign economic policy. Military aid is frequently given with less restraint than economic credits, partly because it places less burden on the Soviet economy and because it more rapidly serves immediate political objectives. There are signs, at least in Indonesia, that Moscow is concerned with the impact of military aid programs on an unstable economy.

Trade may be receiving similar stringent review. Emphasis has shifted from the underdeveloped countries--where trade has become largely self-sustaining--to the West, in an effort to meet the growing demand for machinery incorporating advanced Western technology. This trade will be limited, however, by the relative scarcity of exportable Soviet goods and by the limited credit available in the West. Eastern Europe will continue to be the USSR's largest trading partner.

Foreign Aid

Moscow is firmly committed, at a modest level, to continued foreign aid. The extension of more than \$1 billion in new credits in the last six months establishes the framework within which Soviet aid deliveries will take place over the next several years. More than \$330 million is earmarked for Bulgaria's five-year plan to com-

mence in 1966, about \$325 million is for steel mill construction in Algeria and India in the next few years, and a \$280-million credit to the UAR is for its five-year plan beginning in mid-1965. These commitments, made well before actual goods must be shipped, permit Moscow to plan for demands on its productive facilities.

The surge of new credits this year, as in 1959-61, is

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geared to the early phase of the economic planning of the recipient underdeveloped countries. Smaller commitments were made in 1962-63 when the USSR appears to have been assessing its aid programs--the goals, content, costs, and results.

The criteria which emerged from this review embrace political as well as economic considerations. The USSR may have modified its political expectations --not being so concerned with short-term gains. Moscow probably concluded that even though the policies of aid recipients frequently have failed to parallel those of the USSR and though periodic polemics with such individualists as Nasir occur, the program has enhanced the Soviet political position.

On his return from Cairo in May, Khrushchev defended his program by stating that the aid would be "recovered one hundred-fold. It will be the strongest material cementing fraternity between the Soviet people and other peoples...."

Economic guidelines apparently attempt to assure that proposed aid has reasonable prospects for success, but they are still applied flexibly. Other considerations--the Sino-Soviet competition, for example--sometimes require deferment of economic assessments. Following Peiping's small but fairly well-delineated aid program to Kenya, the USSR announced that it too would provide aid, presumably

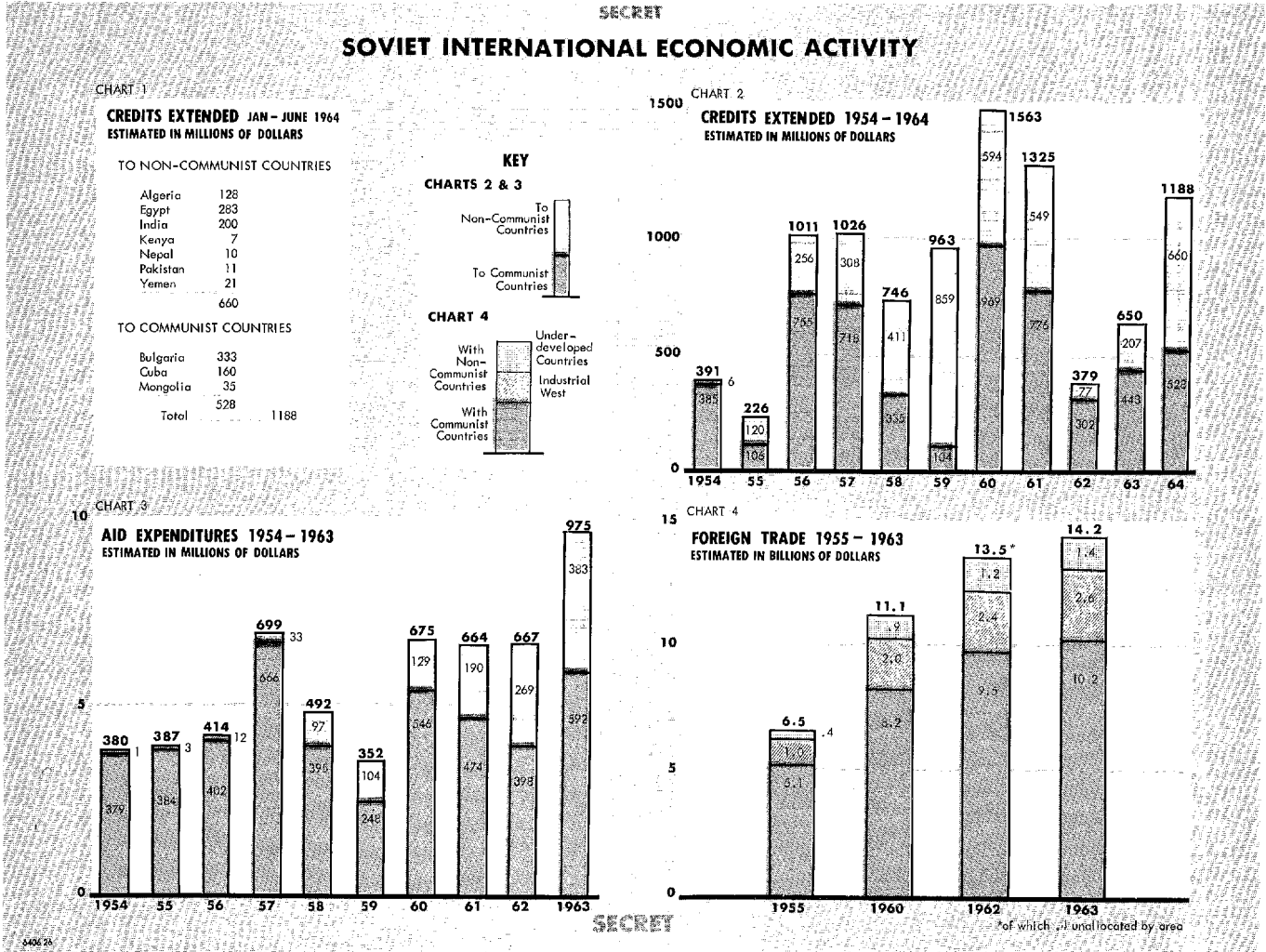
when economic surveys of the country could be completed. The USSR also has kept open channels to all factions in the United Republic of Tanganyika and Zanzibar, and has carefully avoided a hasty commitment to economically and politically irresponsible officials.

The large credits recently extended to non-Communist countries, and the promise of more to come, may cause aid to underdeveloped countries this year to rival the peak of 1959, which was an estimated \$859 million. Another large aid increment will probably be announced late this year for India's new five-year plan commencing in early 1966. This is expected at least to match the half billion dollars extended for the current plan.

Soviet aid to Communist countries also continues. New outlays for Cuba this year have been estimated by Moscow at no less than \$160 million. Support for Bulgaria's next five-year plan, set at \$330 million, presumably was both a reward for past allegiance and a demonstration of the USSR's willingness to help Bulgaria's industrial advancement. As is the case for non-Communist underdeveloped countries, expenditures under this credit will take place over several years.

Aid deliveries to both Communist and non-Communist countries this year undoubtedly

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will remain at a modest level appropriate to Soviet capabilities and in keeping with the slowly rising Soviet expenditures. Such deliveries have gradually grown from an average of \$450 million annually in the 1950s to about \$700 million a year since 1960. Extraordinary expenditures occurred in 1957 following the Hungarian uprising. Actual outlay generally can be adjusted

so as not to conflict with Soviet domestic economic requirements. Furthermore, payments received on earlier credits now keep the net cost of foreign aid to only a few hundred million dollars per year.

Foreign Trade

Long-term financing of large imports from the industrial

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West will remain a major goal of Soviet foreign trade policy. Even if efforts to attract larger credits on longer terms succeed, the USSR's hard currency deficit this year probably will be larger than the estimated \$400 million in 1963.

Soviet purchases from the West are expected to continue to exceed sales there. Demand for a wide range of plants incorporating advanced Western technology has been growing steadily. Imports of machinery in 1962 were valued at \$600 million, three times the 1959 level. Khrushchev's ambitious plan to expand and modernize the chemical industry would mean additional imports of up to \$2 billion worth of Western plants by 1970, but only relatively small reductions in imports of other Western goods can be achieved to release funds for this program. Efforts to expand exports which earn hard currency are restricted by the limited market for those Soviet raw materials which can be made available in large quantities at little additional cost. Furthermore, to compete in markets for manufactured items, the USSR must increase the sophistication of its manufactured products--a feat most readily accomplished by increasing the use of Western technology.

Gold sales have financed some imports from the West, but now the reserve has been reduced to an estimated \$1.4 billion by extraordinary sales to pay for

the \$800 million worth of grain imported in 1963-64. Current gold production will permit sales at the \$200-million annual average level of 1956-62 but exceeding this level will cut into the already dangerously low gold stock, presumably held for such emergencies as last year's food crisis.

The search for longer term credits--10 to 15 years--has achieved some success only in the UK, where the government has offered to guarantee credits totaling \$280 million. This is, however, a small portion of the \$500 million to \$1 billion needed each year to support Khrushchev's plans. There does not appear to be unusual pressure now on Western governments to approve the extension of long-term credits. Pressure might develop, however, if Western suppliers believe they cannot participate in bloc markets unless they offer more generous credit terms.

Trade with the underdeveloped areas of the free world will continue to be supported by deliveries of goods under the Soviet aid program and by shipments of raw materials and tropical products in repayment for Soviet credits. The USSR will still need important primary products, such as rubber and cotton, and possibly certain foodstuffs such as rice. In the attempt to reduce the outlay of hard currency, the

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USSR, where possible, will increase commodity imports directly from underdeveloped countries under clearing agreements.

Communist countries continue to account for 70 percent of Soviet foreign trade. Although trade with Communist China--once Moscow's largest trade partner--has fallen drastically, trade with Cuba has risen rapidly and trade with Eastern Europe has steadily expanded.

Eastern Europe remains the chief source of Soviet imports of machinery and manufactured goods and absorbs large quantities of Soviet fuels and industrial and agricultural raw ma-

terials. Bilateral economic planning between the USSR and East European countries indicates continuing interdependence. The USSR has announced plans to seek sizable imports of chemical equipment from Eastern Europe.

With both the USSR and Eastern Europe attempting to modernize their economies by adopting Western technology and importing Western plants, the rate of growth in intrabloc trade will probably slow. However, limited foreign exchange resources and the relatively restricted market for Soviet bloc exports in the West probably will work to maintain intrabloc trade at dominant levels.

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