

Ex. 116
10-5/6-26

State Department review completed

17 JUL 1958

The Honorable J. H. Smith, Jr.
Director
International Cooperation Administration
Washington 25, D. C.

Dear Jim:

With respect to the question you raised in your letter to me of 25 June 1958, we have on a number of occasions prepared papers on the hazards of commercial and financial dealings with countries of the Sino-Soviet Bloc. We feel that the latest of these, which is attached, may be more responsive to the point you wish to stress than would the more specific type of analysis of Bloc imports which you suggested we might initiate.

With the exception that the attached paper should not be attributed to the Agency, it of course can be freely used by your staff and is unclassified.

I understand that revisions of the attached paper will be prepared from time to time, and we shall make sure that you are provided with copies. If you continue to feel that the type of study you first mentioned is still needed, I can arrange to have it undertaken.

Sincerely,

Allen W. Dulles
Director

Enclosure.

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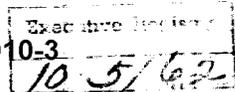
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Deputy Director/Intelligence

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INTERNATIONAL COOPERATION ADMINISTRATION
OFFICE OF THE DIRECTOR

Washington 25, D. C.

JUN 25 1958

Honorable Allen W. Dulles
Director of Central Intelligence
Washington 25, D.C.

SECRET

Dear Allen:

In looking over your Current Intelligence Weekly Summaries I have noted an indication of Soviet practice which, if fully documented over a period of years, would provide an effective and interesting tool for our people to use in the underdeveloped areas.

Your June 5 report, Part II, page 10, indicates that Communist China's imports of rubber are about 100,000 tons more than its needs. Your June 12 report, Part II, page 9, indicates that the Soviet Union's imports of cotton exceed its requirements. At the same time, these reports indicate that the Bloc is switching suppliers.

Before 1953 the Bloc was buying rubber through regular channels from brokers in Singapore, Amsterdam and London. Now they appear to be going directly to the source -- not always the same one -- but rather the one that happens to suit their political ends at the time.

In the case of cotton, I note that Pakistan used to be a heavy supplier. Now that the Soviets have switched their purchases to Egypt and Syria, the Pakistan Industries are operating at about 50% capacity.

In Malaya, the Chinese Communists apparently bought 30,000 tons of rubber just before the election but have purchased hardly any since.

The thought occurred to me that since there is obviously a limit on Soviet Bloc funds and since, as these reports indicate, they are importing more than they need, an unclassified study might be made by your people on just how Bloc imports have been switched around over the past years.

This would be useful documentation for us to have in pointing out to the underdeveloped areas the kind of situation they are liable to get into if they start building up new sources of supply on the basis of Soviet orders.

It might also be interesting to know what the Bloc does with the commodities that are not needed.

Sincerely yours,


J. H. Smith, Jr.

8 JUL 1958

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1	O/DD/I	<i>Jeb</i>	<i>JUL 8 1958</i>
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Remarks:

1 to 2: For comment and preparation of an appropriate reply for the Director's signature.

2 to 3: Draft reply attached.

Suspense 14 July 58

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FROM: NAME, ADDRESS AND PHONE NO.	DATE
Asst. to the DCI	7 July

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