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## **BIWEEKLY REPORT**

# **SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS**

Number 2  
5 March 1956

PREPARED BY THE WORKING GROUP  
ON SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS

ECONOMIC INTELLIGENCE COMMITTEE

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**W A R N I N G**

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS\*

I. Summary of Events, 15-27 February 1956.

During the second half of February 1956, the most significant Sino-Soviet Bloc efforts to expand economic relations with underdeveloped areas of the Free World were the offer of Soviet technical assistance to pro-Western Lebanon, the proposal that Pakistan and the USSR exchange trade missions, and the negotiation of a trade agreement between India and Communist China.

Countries of the Sino-Soviet Bloc concluded a total of 9 trade agreements with Portugal and Yugoslavia which provided for a substantial expansion of trade between those two countries and the Bloc.

In the Middle East and in South Asia, the Bloc was reported to have agreed to build and install several complete industrial plants -- Hungary to construct a power station in Egypt, and the USSR to provide irrigation and telephone facilities in Kabul, Afghanistan, taking over a contract which previously had been awarded to West Germany.

In the Far East, Communist China for the first time contracted for the installation of a complete industrial plant in a non-Bloc country -- a textile mill in Burma. A notable feature of the proposed trade agreement between India and Communist China was the offer by Communist China to supply steel, cement, and soda ash.

In South America, trade delegations from Poland, Hungary, and East Germany are negotiating in Santiago for expanded Bloc trade with Chile.

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\* Although the main emphasis of the Biweekly is on economic activities of the Sino-Soviet Bloc in underdeveloped areas of the Free World, significant Bloc activities of this nature in areas not considered underdeveloped also will be discussed.

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II. Background Notes on Items of Special Interest.

A. Offer of Soviet Aid to Lebanon.

The Soviet Minister to Lebanon called on President Chamoun on 22 February and reportedly offered general, large-scale technical assistance in four fields of major interest to the Lebanese Government -- road construction, irrigation, transport, and communications. The USSR would accept Lebanese products in payment over an extended period. The Minister informed the President that the services of a six-man Soviet survey team, which happened to be in Beirut, were available. The President expressed his thanks for the offer but made no further comment. Of a total of US \$5.9 million allocated for public works projects in the Lebanese budget for 1955, about 75 percent was to be spent for highway development and 19 percent for telephone equipment.

Lebanon is one of the most pro-Western of all the Arab countries, and President Chamoun has expressed his opposition to acceptance of Sino-Soviet Bloc aid. Several influential members of the Lebanese parliament, however, are known to be willing to accept aid from any source. It is possible that the President may not be able to prevent acceptance of the Soviet offer.

1. Previous Offers.

The offer appears to be the first bona fide offer of economic assistance to Lebanon by the USSR. The USSR, however, is not the first Sino-Soviet Bloc country to offer economic aid to Lebanon. Both Czechoslovakia and Hungary reportedly have attempted to secure contracts for the construction of several projects, all presumably on long-term credit terms. Czechoslovakia, which has accounted for about half of Lebanon's limited trade with the Bloc in recent years, has been the most persistent in attempting to participate in Lebanon's planning and industrial projects. In the summer of 1955, upon the return from Czechoslovakia of a delegation of Lebanese industrialists headed by the Minister of National Economy, the Minister is reported to have announced an agreement whereby the Czechoslovaks would supply and install several light industrial plants on

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the basis of a 5-year credit. Another report in September 1955 stated that Czechoslovak industrial consultants would be provided free of charge to make industrial surveys recommending improvements to existing plants and planning new industrial installations.

2. Lebanese Trade with the Sino-Soviet Bloc.

Since 1950 the trade turnover between Lebanon and the Sino-Soviet Bloc has averaged only about US \$5 million per year, about 2 percent of the total trade of Lebanon. In recent months, Bloc countries have been attempting to increase their trade with Lebanon by negotiating formal trade agreements and by establishing trade offices in Beirut. Lebanon similarly has been endeavoring to increase its exports wherever possible; hence, it would be inaccurate to imply that the initiative was wholly on the Bloc side. In January, formal trade relations were established with Communist China, Poland, and Rumania. Trade agreements have been renewed with the USSR, East Germany, and Czechoslovakia. These three countries and Hungary have trade offices in Beirut.

The principal appeal of the agreements with the Sino-Soviet Bloc is that they hold promise of outlets for Lebanon's exportable surpluses of citrus fruits. Although her citrus exports have tripled since 1950, they still account for only a small part (about 9 percent) of Lebanon's total exports, amounting to US \$4.5 million in 1954.

B. Ceylon Rice-Rubber Agreement with Communist China.

The Ceylonese government has agreed to allow Communist China to send goods to Ceylon in part payment of the debt Communist China owes to Ceylon under the rice-rubber agreement. Under the terms of the 5-year agreement signed on 4 October 1952, any deficit owed by Communist China to Ceylon is to be paid in sterling and/or commodities acceptable to the Ceylonese. This is the first time the proviso permitting payment in goods has been used. At the beginning of 1956, Communist China owed an estimated US \$25 million to Ceylon. Shipments of rice from Communist China in 1956 will reduce this debt substantially; but Ceylon has agreed to accept commodities rather than insist on sterling payments for at least a portion of the remainder.

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The first shipment of Ceylonese rubber to Communist China occurred in the autumn of 1951, and subsequent shipments culminated in an agreement to exchange annually 50,000 long tons of rubber at premium prices for about 250,000 tons of Chinese Communist rice at prices favorable to Ceylon. It is estimated that the agreement enabled Ceylon to make annual profits of US \$19.7 million in 1953, and US \$12.3 million in 1954.

In 1952 the exchange was of definite economic advantage to both countries. The UN embargo of May 1951 on shipments of strategic materials to Communist China had cut off the Chinese Communist supply of rubber. Ceylon, a high-cost rubber producer, was faced meanwhile with markedly declining rubber prices and the obligation to buy rice in a tight, high-priced world market. In spite of the UN embargo and the loss of US aid, Ceylon accepted the economic advantages of trade with Communist China.

More recently the rice-rubber agreement with Communist China has become an economic burden to Ceylon, as a result of the increased availability of rice from traditional Southeast Asian sources and the recovery of world natural rubber prices. Thus, in 1953, Ceylon signed an agreement with Burma under which 200,000 to 600,000 tons of Burmese rice would be made available each year for the 4-year period from 1954 through 1957.

By the end of 1954, as a result of the two agreements, Ceylon had a surplus of approximately 100,000 tons of rice. Ceylon attempted to resell some of the rice in Hong Kong and Japan. In addition, the previous price advantage which Ceylon had derived from the exchange was reduced by the rise of world rubber prices in 1955 above the prices offered by Communist China. During 1955, Communist China paid varying premiums for rubber in accordance with changing world-market prices. As a result of these unexpectedly high world rubber prices, however, the value of Ceylon's exports to Communist China was greater than the value of Chinese exports of rice to Ceylon.

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Ceylon has agreed to accept 7,000 tons of white sugar from Communist China in partial settlement of the debt. This sugar was obtained by Communist China on a barter basis from France. Other than this transaction, there are no confirmed reports of commodities of a third country being used as payment.

The rice-rubber exchange will continue in 1956. This fact may explain, in part, Ceylon's decision to reduce 1956 rice purchases from Burma from 200,000 to 100,000 tons. In addition to the Burmese rice which Ceylon received in 1955 under the direct agreement with Burma, Ceylon also received 50,000 tons of Burmese rice as a reexport from Communist China.

C. Sino-Soviet Overtures to Pakistan.

1. Communist China.

The official visit of both the Prime Minister and the Foreign Minister of Pakistan to Communist China, in response to an invitation extended earlier by Chinese Premier Chou En-lai, now has been tentatively set for some time in April 1956. Except for the generality that a "visit of this nature would help to better understanding between the two countries" expressed by the Pakistan Foreign Minister, no details of the scope of the visit have been disclosed. It is known, however, that both are very interested in assessing at first hand Communist China's economic progress and, more particularly, the status and treatment of Mohammedans as a religious minority under the Chinese Communist regime. In view of Communist China's continuing purchases of raw jute from Pakistan, it seems probable that a trade agreement between the two countries will be proposed by the Chinese. (Since July 1955, Communist China has purchased 136,000 bales from the current crop and a further purchase of from 40,000 to 50,000 tons for shipment in March and April was announced on 30 January 1956.)

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2. USSR.

The US Ambassador in Moscow has reported further progress in the negotiation of a Soviet-Pakistan trade agreement: a Pakistan trade mission is to visit the USSR, and a Soviet mission is, in turn, to go to Pakistan to consider possibilities of reciprocal trade.

3. Czechoslovakia.

Following the completion of a trade agreement with Poland, Pakistan is now in the process of negotiations with Czechoslovakia. The Czechoslovaks' willingness and readiness to strengthen trade relations with Pakistan was emphasized publicly by the Czechoslovak envoy in Pakistan, Eric Brazda, in a speech on 15 February in which he said that Czechoslovakia was ready to provide Pakistan with a variety of agricultural and industrial machinery ranging from sugar mills to cement factories and other installations.

D. Chinese Communist Trade Agreement with India.

Communist China's apparently unsolicited offer to supply 50,000 tons of steel and undisclosed amounts of cement and soda ash to India has spearheaded negotiations for a new trade agreement. The Indian Secretary of the Ministry of Commerce and Industry, commenting to US Embassy officials about these negotiations, stated that India's desperate need for steel to fulfill the Second Five Year Plan makes it difficult, if not impossible, for India to turn down the Chinese Communist offer. At the same time, he recognized the political motivation behind the offer.

The offer of steel represents a distinct departure from the recent pattern of trade between India and Communist China. Except for bulk purchases of rice in 1951-52 and 1952-53, Indian imports from Communist China have been very small in value (less than 1 percent of total imports) and have consisted largely of such unfinished commodities as raw silk, tung and china-wood oils, and newsprint.

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Indian officials in the Ministry of Finance discount the possibility of trade between the two countries growing to significant proportions in the near future but admit that such trade, if based on carefully selected items of a scarce nature and supplied at competitive prices, might have an impressive political impact and strengthen Communist China's foothold in the Indian market.

E. Sino-Soviet Bloc Trade Agreements with Portugal.

The conclusion on 16 February of a semi-official trade-and-payments agreement between the Central Bank of Portugal and the German Notenbank of East Germany marked the fourth such agreement that Portugal has signed with countries of the Sino-Soviet Bloc in the last 6 weeks. Similar agreements were signed with Czechoslovakia on 21 January, with Hungary on 3 February, and with Poland on 12 February.

These agreements, which were not concluded on a government-to-government level, as Portugal does not have diplomatic relations with Bloc countries, will govern trade during 1956. They are the first such agreements to be concluded in the postwar period. The commodities involved are similar to those traded in the past and include cork, wines, cocoa beans, coffee, and superphosphates from Portugal in return for machinery, land-transport equipment, glassware and ceramics, instruments, and textiles from East Germany; railroad rolling stock, tractors, and coal from Poland; and aluminum wares from Hungary. In the past, Sino-Soviet Bloc imports from Portugal have far outstripped exports, and it is possible that Bloc motivation in concluding these trade agreements lay in the desire to pay for Portuguese imports in Bloc exports rather than in convertible currencies, as the Bloc countries have in the past.

Trade between Portugal and the Sino-Soviet Bloc has been relatively small in value, accounting annually for 1.2 percent of total Portuguese trade since 1952. During 1955, Czechoslovakia replaced the USSR as the largest Bloc trading partner of Portugal.

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Sales of cork (traditionally Portugal's chief export) to the Bloc amounted to US \$5.9 million in 1954 and US \$2.9 million during the first 6 months in 1955, representing 14 percent and 8.9 percent, respectively, of Portuguese exports of crude and manufactured cork. Trade with the Bloc is thus of some importance to the Portuguese cork market.

Motor vehicles and industrial machinery have been the primary Bloc exports to Portugal, amounting to US \$142,000 during the first 6 months of 1955. During 1954, however, wheat supplied by Czechoslovakia ranked first -- amounting to US \$283,000. Coal from Poland was the largest single item of Bloc export in 1952 and 1953.

Soviet exports to Portugal have been negligible. Recently, however, the USSR competed with the US and Brazil in bidding for the sale to Portugal of 2,000 tons of raw cotton which would be bartered for cork. Portuguese authorities reportedly rated the Soviet cotton samples as the best in quality, and they would prefer to barter wine rather than cork. If the bid is awarded to the USSR, the transaction will mark the first sale of cotton to Portugal by a Bloc country. Normally, Portugal meets its demands for cotton by imports from its African colonies, which had a smaller-than-average crop last year.

F. Progress of Soviet Credit to Afghanistan.

A variety of reports and rumors have been received as to the nature of the projects the USSR plans to undertake under its US \$100 million credit agreement with Afghanistan, signed on 28 January 1956. The frequency of the reports indicates the widespread interest which both Afghanistan and the USSR have in implementing the agreement without delay.

Both Afghanistan and the USSR are reportedly interested in improving communications, roads, airports, and telephone systems and in constructing hydroelectric plants. The roads in Afghanistan are notoriously bad, and in places, particularly in the north, they are impassable for some months of the year. Trade of the most basic importance is

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delayed by necessary circuitous routing. Afghanistan's continuing dispute with Pakistan has made the government particularly conscious of its vulnerability to a trade blockade from the south. Since the conclusion of the Afghan-Soviet transit agreement the government of Afghanistan has requested that certain imports from the Free World be shipped by way of the USSR. The USSR has responded with special facilities for speeding delivery of freight shipped through its territory. Among the proposed projects that have been reported are road construction from Kunduz to Pul-i-khumri and improvement of port facilities at Qizil Qala, including gasoline storage, warehousing, and an auto repair shop. (Qizil Qala is an important transit point on the Oxus River boundary, and some of this work is already in progress.)

There have been several reports that the USSR will undertake the construction of an irrigation dam at Barikao. In addition the West German Legation reported to the US Embassy at Kabul that the USSR will take over the second phase of the Sarobi hydroelectric project which has been thus far an exclusively West German operation.

The US Embassy also has reported as reliable information an Afghan cabinet decision to cancel the Siemens contract for constructing a short-wave radio station and long-distance telephone facilities. This work is to be done by the USSR as part of the credit agreement. Thus far unconfirmed is a report that the USSR will construct a military airport about 40 miles north of Kabul.

In addition to the US \$100 million credit, the USSR is reported to have offered a loan of US \$12 million to the Afghanistan Textile Company. Neither the terms or objectives of this loan are clear at present, but it would appear to offer a field for Soviet penetration into the Bank-i-Melli complex of projects and operations and the possible supplanting of German and Austrian technicians by Soviet technicians.

The influx of new Soviet personnel into Afghanistan, anticipated in implementation of the agreement, has not really begun, but 15 new Soviet technicians arrived in mid-February, 2 Czechoslovak engineers already are installed in the Ministry of Public Works, and office space is being prepared for the arrival of additional Soviet engineers.

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The cooperation of the Afghan government in providing facilities for preliminary Soviet survey teams has been extensive and no doubt reflects interest in speeding the work. In this connection it is reported that all road and bridge plans and blueprints in the Ministry of Public Works have been turned over to the Soviet engineers.

G. West German Participation at the Leipzig Fair.

Reports from the Spring Fair at Leipzig, East Germany, indicate that West Germany, with 1,589 exhibitors, is the largest non-Bloc participant. Most of the major West German industrialists are represented, many exhibiting at the Leipzig Fair for the first time since World War II.

This large measure of West German participation -- France, with 291 exhibitors, is in second place among non-Bloc participants -- should not be viewed as abnormal or as presaging a major expansion of trade with the Bloc. In the Spring Fair of 1955, there were even more West German participants -- 1,662 as compared with 1,589 in 1956. It is reported, however, that approximately 400 West German concerns were refused space at the present Fair. At the Fall Consumer Goods Fair at Leipzig in 1955, there were 1,279 West German participants, and at the Fall Fair in 1954 there were 929.

The possibility of increased trade with the Bloc is not the sole attraction of the Leipzig Fair to West German businessmen. The Fair attracts many foreign visitors, including delegations from many of the underdeveloped countries, and therefore offers the exhibitors the opportunity to display their products before most of the world. The attitude of an official of Krupp, one of the largest of the concerns participating at the Fair for the first time since World War II, may be representative. He reportedly stated that "all of our competitors from West Germany are here at the Fair, and we don't want to stay behind."

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III. Other Significant Developments.

A. Technical Aid.

1. Offers.

East Germany has offered to train 100 Egyptian trade-school boys for 11 months. The Egyptian Ministry of Education reportedly plans to accept the offer.

2. Acceptances.

a. Egypt-East Germany.

Reports from East Berlin indicate that the Siemens interests will set up chemical laboratories in Cairo and that East German experts in sugar refining will soon visit Egypt to aid in constructing a sugar factory.

b. India-East Germany.

A delegation of East German experts arrived in Bangalore, India, on 19 February to inspect sites and advise the local government on the location of a raw-film industry. The team, in India at the invitation of the Indian government, also will hold discussions with the Mysore administration before returning to New Delhi for final discussions with the government of India.

c. Yugoslavia-Bulgaria.

Bulgaria and Yugoslavia signed a 5-year scientific and technical exchange agreement in Sofia on 10 February.

B. Industrial Installations.

1. Offers.

No new offers of specific installations were reported during the period.

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2. Reported Acceptances.

a. Egypt-Hungary.

Hungarian sources reported that after several months of negotiations an agreement was signed in Cairo between Egypt and Hungary providing for construction by Hungary of a power station similar to that in Sztalinvaros, Hungary. The Hungarians commented that the relatively early delivery date will impose some degree of strain on the Lanz Engineering Works, the Klement Gottwald Electric Factory, and the April Four Factory.

C. Trade Missions.

1. Czechoslovakia and USSR to Yemen.

The Czechoslovak trade mission visiting Egypt in mid-February was reported about to proceed to Yemen to discuss a trade agreement between the two countries which would involve an exchange of coffee and leather from Yemen for heavy machinery from Czechoslovakia. Meanwhile, five members of the Soviet trade delegation, who had been in San'a, have returned to Cairo. Egyptian sources report that their mission was a failure.

2. Poland, Hungary, and East Germany to Chile.

Three trade missions from Poland, Hungary, and East Germany reportedly were in Chile for direct conversations with the National Foreign Trade Council (CONDECOR), The Nitrate and Iodine Sales Corporation (COVENSA), and the Ministry of Economy. The local press reported the sale to Hungary of 20,000 tons of nitrate in exchange for Hungarian goods of similar value.

3. USSR to Burma.

The Rangoon Embassy reported that a Soviet mission, due in Burma in May, is to explore the possibility of supplying Burma with a

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steel mill, tractor and fertilizer factories, and other plants. This is an expected implementation of the Nu-Bulganin agreement of December 1955, under which the USSR will supply technical assistance and some equipment to Burma in exchange for rice, shipments of which may be deferred if necessary.

D. Trade Agreements.

1. Five Soviet Bloc Countries with Yugoslavia.

The conclusion of five new trade agreements between Yugoslavia and the Bloc was reported during the second half of February. The first trade-and-payments agreement between Yugoslavia and Communist China was signed in Belgrade on 17 February, together with an agreement for scientific and technical cooperation. The trade agreement anticipates exports this year of 2.5 million pounds sterling in each direction.

An agreement with Albania calls for the same volume of trade as did the 1955 agreement (US \$750,000 each way).

A trade agreement with Bulgaria was signed in Sofia on 10 February, providing for US \$4.5 million of trade flowing in each direction and also calling for technical and scientific cooperation. The volume of trade anticipated is nearly double that scheduled for 1955.

Following the Czechoslovak-Yugoslav financial agreement of 10 February, a protocol for an exchange of goods between the two countries amounting to US \$26 million was signed on 16 February. The amount of trade provided for in the agreement is about double the actual 1955 level.

A Yugoslav trade agreement with Rumania calls for nearly 85 percent more trade than did the 1955 agreement (which was only about 50 percent fulfilled).

E. Credits Extended.

The US Embassy in Belgrade has learned that the Polish credit extended to Yugoslavia in November, for the purchase of transport equipment and machinery, amounted to US \$20 million.

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F. Transportation Agreements.

1. Egypt-Poland.

An agreement regulating air services between Egypt and Poland was signed in Cairo in mid-February. It provides for the inauguration of a regular air service between Warsaw and Cairo, to operate three times a week at the outset.

2. India-USSR.

The details of establishing a direct maritime link between India and the USSR are to be arranged by a delegation of Indian specialists visiting the USSR. In mid-January the Secretary of the Indian Ministry of Transport told a press conference that service between a Black Sea port and India would be set up in accordance with a communique on economic relations between the two countries issued in December. The communique stated that both governments believed the organization of such shipping services to be necessary.

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Approved For Release 2003/08/18 : CIA-RDP80B01676R004200120011-3

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Approved For Release 2003/08/18 : CIA-RDP80B01676R004200120011-3