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Office Memorandum • UNITED STATES GOVERNMENT

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TO :
THRU :
FROM :

DATE: 30 April 1957

SUBJECT: Transmittal of ERA Project No. ^{40.1049B} 42-1754, "Soviet Bloc and Western Support for Economic Development in Syria"

1. Transmitted herewith are ^{in one} ~~three copies~~ of the subject report together with a memorandum by the responsible analyst as to the appropriate classification of the materials contained therein.

2. The purpose of this study is to present Soviet Bloc and Western assistance to Syria against the background of incipient economic development plans. The attached paper is the fourth in a series designed to provide DD/P with the basis for formulation of a selective economic countermeasures program.

3. It is therefore considered that this paper will reach the consumer at a most propitious time in its programming activities.

4. The primary feature of the paper is to indicate specific ties which business elements in Syria have with the West while indicating how these ties are being undermined by economic overtures of Sino-Soviet Bloc countries. In accordance with the desires of the consumer considerable detail on specific effects of bloc penetration of the Syrian economy is included in the appendixes.

5. This study represents an excellent research job in that it adequately considers pertinent materials and analyzes them in a manner consistent with the purpose indicated above.

In as much as the requester has indicated the desire to receive multiple copies of the paper for a variety of uses it has been reproduced in ditto form. For the present, the study should go to the requester only. After review and consideration it may be given a limited distribution on a highly selected basis.

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CIA HISTORICAL REVIEW PROGRAM
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1999

SOVIET BLOC AND WESTERN SUPPORT FOR
ECONOMIC DEVELOPMENT IN SYRIA

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40-10498
(ORR Project ~~██████████~~)

30 April 1957

WARNING

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THE NATIONAL DEFENSE OF THE UNITED STATES
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CENTRAL INTELLIGENCE AGENCY
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Summary

Until 1955, Syrian economic relations with the Sino-Soviet Bloc had been extremely limited. The Bloc accounted for less than 3 percent of Syria's total trade, and only Czechoslovakia had any official contact with the Syrian Government. Toward the close of 1954, the Bloc undertook a more active economic policy in an attempt to expand economic relations with Syria. With the aid of elaborate pavilions and strategically designed propaganda the Bloc countries dominated the first two international fairs held in Damascus during September 1954 and 1955. Nine Bloc countries participated in the Third Damascus International Fair in September 1956, and conducted aggressive advertising campaigns in local newspapers. In the meantime, numerous Bloc commercial, scientific, and technical delegations toured Syria, signing trade agreements and presenting indiscriminate offers of economic assistance. A number of commercial offices were opened in Damascus and intensive advertising campaigns were undertaken by the Bloc. The Communist Chinese Government was recognized by Syria and East Germany was granted permission to establish a consulate in Damascus.

By the end of 1956, Syria had signed nine trade agreements with the Bloc—more than any other underdeveloped free-world country. During the marketing season in mid-1956, intensive activity by the Bloc in the Syrian cotton market raised the price of cotton to a level sufficient to price France—the major importer of Syrian cotton—out of the market. By the

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end of January 1957, the Bloc had contracted for approximately 50 percent of Syria's exportable cotton. To relieve a fuel shortage resulting from its sabotage of the Iraq Petroleum Company pipelines, Syria purchased a large proportion of its petroleum requirements from the USSR.

To date several Bloc countries have been awarded construction contracts in Syria valued at a minimum of \$28 million and have placed bids totalling \$10 million on other projects. Czechoslovakia has been awarded a contract to construct a major petroleum refinery in Syria. The most significant agreement between Syria and the Bloc has been the purchase by Syria of Bloc arms valued at approximately \$70 million, thus forcing Syria to commit an important part of future barley and cotton crops.

The effect of the Bloc's appearance as a champion of Syrian political and economic interests has been to further exacerbate Syrian relations with the West. As a result of the Algerian and Suez crises, Syrian economic relations with France and the United Kingdom are at a low ebb.

These countries have been two of Syria's most important trading partners. In the past France, alone, took more than half of Syria's cotton exports.

The cost of military expenditures and the loss of important sources of foreign exchange have severely curtailed Syria's six-year development program. The program, designed to expand agricultural production and productivity, calls for an expenditure through 1961 of \$183 million for irrigation projects, roads, airports, drainage projects, port development,

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and an oil refinery. Two major undertakings, estimated to cost about \$255 million, were scheduled for initial surveys during 1957. A major source of funds for this program was to have been oil transit revenues from the Iraq Petroleum Company. The International Bank for Reconstruction and Development had outlined a six-year program which would cost about \$270 million, but most of the projects recommended were much smaller than those contemplated by the Syrian Government.

Although the major share of the cost of Syrian economic development must be financed from internal sources, a sizeable amount of foreign investment will be needed if the program is to assume significant proportions. As nationalist fervor has pushed Syria increasingly toward the left, however, foreign private capital has become unwilling to expand investments in Syria. The Bloc, despite numerous general offers to provide whatever economic assistance Syria requires, does not appear willing to become an alternative source of investment funds on a large scale, although it may be willing to undertake smaller, individual projects.

The combination of rampant nationalism, the loss of a significant amount of oil transit revenues, the arms agreement with the Bloc and the estrangement with major Western trading partners has served to push Syria into closer politico-economic relations with the Bloc and has created serious economic problems for Syria which, as a minimum, will require postponement of Syria's program for economic development.

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I. General Economic Problems

A. Introduction

The majority of the projects necessary for improving economic welfare in most of the underdeveloped countries are of such magnitude as to require sizeable investments from external sources. Consequently the political climate in which economic development takes place has become a primary consideration affecting the economic development of these countries. In many areas of the world nationalism and antagonism based on anti-colonial feelings have created conditions which seriously affect the availability of direct, large scale, private investment. As foreign private investors have become reluctant to supply the capital requirements of underdeveloped countries, and as western governments have been slow to fill the investment gap, the Soviet bloc has been presented with an excellent opportunity to play an increasing role in the economic progress of many free world areas.

In Syria, the problem has been magnified to an extent that in many instances political considerations have become the almost exclusive determinants of economic decisions. Nationalism, antagonism toward the West (arising particularly out of the Arab-Israeli conflict) and a general fear of the resurgence of Western colonial domination have considerably increased Syria's political and economic vulnerability to the blandishments of the Soviet Bloc.

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B. Agriculture

Syria is primarily an agricultural country. Cotton, wheat and barley are Syria's major crops and the major commodity sources of foreign exchange. Approximately 70 percent of the people derive their living directly from agriculture and a considerable portion of the rest earn their incomes by handling or processing agricultural commodities. 1/ As a result, a program aimed at improving the living standards in Syria must emphasize investment which would increase agricultural productivity. There is still a large quantity of untilled land available in Syria but the lack of water seriously limits its utilization. The total arable land is estimated at 5.5 million hectares*, of which about 3.5 million is under cultivation. Irrigated land accounts for only about 10 percent of the land under cultivation and periodic droughts tend to make agricultural production extremely unstable. 2/ Due to a severe drought in 1955, the harvest of wheat and barley was approximately half the 1954 crop and almost all exports of wheat were prohibited. 3/

Syria is also faced with the problem of raising the relatively low productivity of its agriculture. The maximum yield of wheat on Syrian land is reported to be about 600 kilograms** per hectare whereas wheat-producing countries in Europe obtain yields of from 1 to 2 metric

* 1 hectare equals 2.471 acres.

** 1,000 kilograms equals 1 metric ton.

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tons per hectare. 4/ Notwithstanding differences in Syrian and European costs of production, the comparatively low yield is an important factor in the competitive position of Syria's agricultural commodities on the world market.

C. Transportation and Storage Facilities

The development of transportation facilities is one of Syria's most urgent needs. Transportation has not kept pace with the expansion of production and particularly with shifts in the geographic pattern of agricultural output. The Jezirah area, located in the northeastern part of Syria, produces most of Syria's wheat export surplus and a major portion of the country's barley and cotton crops. In spite of this, the area is poorly equipped with highways and railroads. The cost of transportation in this area has become extremely burdensome and rates are subject to sharp seasonal fluctuations due mainly to heavy traffic during the harvest season and virtual cessation of traffic during the winter months. During the harvest season the cost of transporting grain from the Jezirah region to Aleppo is about twice as much as during the "dead season." 5/ Transport charges represent about one-third of the f.o.b. export price of barley and about a fifth of that of wheat. 6/ The roads, most of which are unsurfaced, are inadequately maintained. The railways were constructed prior to 1945 and are no longer adequate for the needs of the expanding economy.

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The shortage of storage facilities in the crop-producing areas, in the commercial center of Aleppo and the port of Latakia is another obstacle which must be overcome before any sizeable expansion of agriculture can be undertaken. Inadequate storage facilities keep storage charges high and frequently force farmers to dump their products on the domestic market.

D. Electric Power

A major limitation to industrial expansion in Syria is the shortage of electric power. Out of a population of 3.8 million, not more than 1.5 million live in towns and villages supplied with electricity and only about half actually have facilities for its use. Many industrial establishments provide their own power facilities. Public utilities have great difficulty in meeting their peak requirements as no reserve capacity exists. Widely fluctuating load requirements, and the almost exclusive use of diesel units to produce power make for a high cost of power generation and seriously inhibit expansion of facilities.

E. Industry

Modern factory production in Syria is a relatively recent development. The bulk of Syrian industry has been developed since the end of World War II, but the earlier rapid rate of growth it experienced has begun to level off. Many industrial concerns which were developed

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as a result of wartime and postwar commodity shortages have been maintained by an exaggerated system of protection from foreign competition. This protection has dulled the incentive to increase efficiency, and has therefore retarded the expansion of domestic markets.

F. Finance

1. Lack of Indigenous Fund-Providing Institutions

Primary financial deterrents to economic development in Syria are the lack of indigenous sources of investment capital. For the most part, there are no savings banks, insurance companies, mortgage-financing institutions, or any of the other institutions which normally mobilize savings and invest in government or other high-grade bonds. The agricultural Bank provides only an insignificant amount of capital and the Central Bank, established on 1 August 1956, has not begun to function as a source of domestic capital.

The Syrian economy is served primarily by foreign banks. Of the 15 commercial banks accredited at the beginning of 1954, ten, including all the larger institutions, were foreign.* The French Banque de Syrie et du Liban (BSL), as the largest commercial bank and, until 1 August 1956, the bank of issue, dominates the banking system. These foreign commercial banks are engaged principally in short-term

* France 5; Jordan 2; Iraq, Britain and Egypt, 1 each.

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financing of foreign and domestic trade and offer little in terms of long-term investment funds. The BSL has, in the past, extended some investment loans to industry, but only after securing the guarantee of the Syrian Government.

The development of domestic capital faces the handicap of a low annual per capita income (approximately \$100) and the traditional hoarding of savings practiced by the wealthy class. Neither of these difficulties are likely to be overcome in any short-run program. Savings among the bulk of the population are practically nonexistent. The wealthy class converts its savings into gold. In 1954 the size of this accumulation was estimated at about \$140 million. ^{8/} The middle class saves a part of its income for extraordinary expenditures--weddings, illness, etc., retaining the funds at home and refusing to invest savings at the expense of liquidity. ^{9/}

2. Domestic Credit

Until the recent creation of a central banking authority to control commercial credit, commercial banks generally had been free to determine their own credit policies. The volume of credit extended was usually based upon the expectations of the next harvest season. By the end of 1953, outstanding bank credit totalled approximately \$63 million. During 1954, bank

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credit expanded rapidly, rising to a level of about \$111 million. This rise was due mainly to the expectation of bumper crops. Credit expanded only slightly during 1955, reaching a total of about \$119 million. 10/ This relatively small increase over the previous year was the result of a contraction of credit in early 1955 because of a severe winter drought and poor harvest prospects. By the last quarter of 1955 credit began to expand again and by the first quarter of 1956 banking circles had regained their optimism and were expecting a record agricultural season. 11/

In addition to bank credit, farmers obtain credit in a number of other ways, of which the following are the most important:

1. Loans by the Agricultural Bank of Syria secured by land mortgages;
2. Credit purchases from merchants;
3. Future sales of growing crops at a price lower than that which might be obtained during the harvest. 12/

Until the establishment of the Central Bank, the Agricultural Bank was the only government banking institution. The bulk of the loans extended by the Agricultural Bank are short-term loans to farmers owning small or medium-sized farms. Long-term loans, which form a small part of total loans, are extended for land purchase and improvements

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and for the purchase of farm machinery. These loans are extended for a period generally ranging between 3 and 15 years. No one borrower may receive more than \$2100. ^{13/} The inability to obtain large loans from the Bank often compels large landowners to turn elsewhere to satisfy their capital requirements.

In 1955, the Bank granted short-term loans valued at \$7.3 million and long-term loans valued at \$0.9 million. In an attempt to increase the Bank's lending capacity, the government authorized in 1956, an increase in the Bank's capital from \$2.8 million to \$27.2 million. ^{14/}

Since most Syrians use currency for the settlement of obligations, increased credit resulting from an expansion of economic activity has been accompanied by a similar increase in the quantity of currency issued. ^{15/} During the first quarter of 1954, the total volume of money in circulation was about \$154 million. By July 1955, after a period of general credit expansion, the total had increased to approximately \$180 million. ^{16/} Syrian officials claim this increase was much less than necessary to meet the needs of the economy.

3. International Financial Problems

The increasing economic activity, with the concomitant expansion of credit and demand for imports, has resulted in a

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deterioration in Syria's balance of payments and foreign exchange holdings. Syria's trade deficit is usually offset, on the current account of the balance of international payments, by local expenditures by foreign concessionaires and oil transit payments made by foreign oil companies, by United Nations Relief and Works Agency expenditures in Syria, and by emigrant remittances (see Table 8). Since 1953, however, the annual trade deficits have become larger without a proportionate increase in the offsetting factors.

TABLE 1

Syria's Balance of Trade
(millions \$US)

	<u>1953</u>	<u>1954</u>	<u>1955</u>
Imports	139.0	184.7	196.4
Exports	<u>103.7</u>	<u>128.4</u>	<u>132.3</u>
Trade Balance	- 35.3	- 56.3	- 64.1

During the first 10 months of 1955, foreign exchange reserves fell so rapidly that Syria faced a foreign exchange crisis. A crisis was averted when the Syrian Government received a \$10 million loan from Saudi Arabia and concluded a new agreement with the Iraq Petroleum Company, (IPC) which involved a sharp increase in sterling receipts. 17*

* The IPC agreed to pay Syria 6½ million pounds sterling annually (approximately \$19 million) for transit rights of the oil pipelines. In addition, the IPC agreed to pay 8½ million pounds sterling (approximately \$24 million at the official rate of exchange) for retroactive payments and to deliver up to 600,000 tons of crude oil annually at a price considerably below the market price.

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TABLE 2

Syria's Foreign Exchange
Reserves

(million \$US)

December 1951	33.4
December 1952	29.3
December 1953	44.5
December 1954	46.7
July 1955	28.5
October 1955	30.9
December 1955	37.8

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II. Syrian Plans for Economic Development

A. Planned Investment

On 13 August 1955, the Syrian Parliament approved a 6-year extraordinary and special budget for economic development providing for expenditures through 1961 of about \$183 million. 18/ The budget includes \$24 million for new irrigation projects, \$17 million for roads, \$8 million for airports, \$12 million for the Ministry of Defense, \$24 million for completion of the Ghab drainage project in Western Syria, and \$22 million for an oil refinery. Also included were allocations for surveys for the Euphrates Valley irrigation scheme and the Latakia-Jezirah Railroad (See Table 9).

On 29 August 1955, a Permanent Economic Council and an Institute for Economic Development were established to control the execution of the development plans as a whole. The Council will serve as an advisory body and the Institute will plan and supervise capital development projects. 19/

Syria has in progress, in addition to a number of smaller projects, two major undertakings. The first, started late in 1952, is the transformation of Latakia into a modern seaport to serve as a principal outlet for Syrian commodities. The cost of renovating the port area is estimated at \$12 million and is to be completed by late 1957. 20/ The second major project, started in late 1953, is the reclamation of the Ghab swamps. 21/ This project is to be completed by 1965 and

will cost about \$48 million. 22/ Approximately 125,000 acres suitable for growing rice, cotton, sugar beets, wheat and barley will be reclaimed.

23/ In addition to drainage facilities and irrigation dams, 5 power stations are to be constructed on the Orontes River to increase electric power generating capacity for the Homs-Hama area. 24/

The Euphrates Valley hydroelectric and irrigation complex is by far the most ambitious of Syria's planned development projects. The construction of the complex will extend over a considerable length of time and will cost approximately \$200 million. The cost of the Yusef Pasha Dam alone is estimated at \$40 million and that of the irrigation system at about \$155 million. 25/ Upon completion, the system will irrigate about one million acres suitable for cotton, wheat, barley and other products suitable for cultivation in Syria. In addition, the Dam will provide Aleppo with a sizeable increase in electric power.

Related to the Euphrates Valley complex is the expansion of transportation facilities to the area. In addition to funds allocated for road maintenance and improvement, the Syrian Government plans to invest approximately \$56 million in the construction of a railroad from the area to the Port of Latakia. 26/

B. Financing Economic Development

More than half of public investment in the program of economic development is to be financed through government bond issues and anticipated receipts of petroleum revenues from the Iraq Petroleum Company. 27/

Table 3

Sources of Revenue (6-Year Estimate)	LS 000	Approximate \$US 000
Withdrawals from ordinary budget	90,000	25,000
Share of petroleum revenues	155,000	43,100
State reserve funds	68,954	19,155
Revenues from IBRD loans	77,000	21,389
Government domestic loans	246,946	68,597
Other	22,000	6,111
TOTAL	LS 659,900	\$183,352

The Syrian Government at one time planned to seek a new loan from the International Bank, but later considered that the new agreement with the Iraq Petroleum Company eliminated the need for such a loan. The amount of anticipated petroleum revenue presented in Table 3--approximately \$7 million a year-- however, indicates that receipts resulting from the new IPC agreement had been included when the estimates were prepared. It is not known whether the program will be reduced accordingly or if other sources of funds are anticipated.

The ability of Syria to undertake a large-scale economic development program cannot easily be determined by the use of published budgetary information. Syria has many different types of budgets. These include the ordinary and developmental budgets, and various special, related, autonomous, and annexed budgets. Some are entirely independent of the ordinary budget; some are interrelated in that they either contribute to or draw upon the ordinary budget. These ancillary

budgets total approximately 50 percent of the ordinary budget. 28/ The special budget, which includes a related budget and an autonomous budget, totalled about \$37 million in 1955. 29/ Syria traditionally underestimates revenues in its budget and the additional income is placed in a "reserve fund." The size of the fund is considered a military secret inasmuch as supplementary arms purchases are made from it. 30/ It would appear, however, that approximately 40 percent of the country's national income* is absorbed in governmental operations. Implementation of the economic development program without sizeable investment from foreign sources is hardly feasible, unless the government is willing to undertake severe anti-inflationary measures.

C. Creation of a Central Bank

On 1 August 1956, the Syrian Government opened a Central Bank as a major preliminary step in its expansion program. In an address commemorating the opening of the Bank, President Quwatli indicated that the Bank will "direct the granting of loans in the country as is commensurate with the requirements of national economy. . . and will direct the financial policy with a view to promoting production, increasing the national revenue. . ." 31/ The Central Bank is now the bank of issue and is responsible for determining credit and discount policies. In addition, the Bank will make loans for industrial and agricultural purposes. Potentially, the Bank is a source of inflation.

* Syria has an estimated population of 3.75 million and a \$100 per capita income.

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The Banque de Syrie et du Liban (BSL), the former bank of issue, limited its note issue to the extent of its gold and foreign exchange reserves. The charter of the Central Bank permits an expansion of money in circulation covered to the extent of only 30 percent by gold and foreign exchange. The balance of the backing is to be in official and private Syrian receivables. The Syrian economy is not yet experiencing any significant degree of inflation but inflationary forces are present and an injudicious Central Bank Policy could reenforce them. Present bank reserves do not appear adequate to support more than a moderate increase in note issue. If these reserves should increase appreciably at a future date, the inflationary potential would accordingly increase too.

The Syrian Government is in the process of establishing an Industrial Bank to finance industrial development. The capital of the Bank will be approximately \$2.8 million, of which the Syrian Government will subscribe to 51 percent of the stock and offer the remainder to the banks of other Arab countries.

D. Effects of the Middle East Crisis

The crisis which arose in the Middle East in mid-1956, forced Syria to curtail its economic development program at a time when it had scarcely got underway. On 6 November 1956 the Syrian Prime Minister ordered all Syrian ministries to stop spending on construction projects, not to seek tenders, and to suspend any work requiring large expenditures with the exception of matters related to national defense. 34/ He

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stated that the rapid increase in mobilization needs has presented Syria with the problem of raising an additional \$112 million for "non-recurrent arms purchases." 35/ (The length of time for which this sum is required has not been determined.) This is more than the \$90 million budgeted for total government operations during 1956. Whereas the 1956 budget increased by 25 percent over 1955, the estimated 1957 budget will be about 55 percent higher than in 1956, with more than 40 percent of the budget allocated for military expenditures. 36/

Table 4

Military Share of the Ordinary Budget
(\$US'000)

	1954	1955	1956	1957
Total Budget	58,683	72,989	90,771	140,000
Military Share	21,128	22,829	33,614	57,000
Military Share as a Percent of Total	36	31	37	41

The Prime Minister of Syria indicated that the increase in the budget would be raised by imposing either a retail sales tax, an excise tax on manufactured goods, a capital levy, or a combination of these measures. 37/ On 10 December 1956, it was announced that the Cabinet was studying a bill which would provide for a three-year national loan of between \$24 to \$27 million and a tax upon industrial production, salaries and wages, and commodity purchases for raising the remainder of the emergency funds. 38/

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In addition to draining Syrian financial resources for military expenditures, the Middle East crisis has had other effects. The severing of the Iraq Petroleum Company pipelines has resulted in the loss of Syria's major source of foreign exchange and has created a fuel shortage with its accompanying adverse affects on industry. The actual loss to the Syrian economy will depend on how soon and at what rate the flow of oil at full capacity is resumed. It may take 9-12 months to restore full capacity.

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III. The Report of the International Bank for Reconstruction and Development

In February 1954, at the request of the Syrian Government, a ten-member commission from the International Bank for Reconstruction and Development (IBRD) arrived in Syria to undertake a general review of Syria's economic potentialities and submit recommendations for instituting a long-term economic development program. The Mission completed its survey during the latter part of April 1954 and submitted its report to the President of Syria.

The Mission outlined a program of government action for the years 1955 through 1960 and recommended a program for economic development amounting to about \$270 million. *

Table 5

Summary of IBRD Recommendations
(millions \$US)

Irrigation and reclamation	55.8
Other agriculture	38.6
Electric power	16.8
Transport and communication	48.2
Public services and housing	105.1
Other	5.5
TOTAL	<u>\$270.0</u>

The Mission suggested that any long-range development program place primary emphasis upon agriculture with special consideration

* Unless otherwise indicated, information presented in this section is based upon the published report of the Mission, The Economic Development of Syria.

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given to stimulating cotton and grain exports. Although the total investment recommended is somewhat larger than that currently planned by Syria, the Mission recommended allocating a larger portion to public services and housing. The Mission suggested concentrating upon a number of smaller projects which could be completed in a short period of time and without too severe a burden on the economy. The Mission further recommended that the entire Euphrates Valley complex be put off until after 1960, in view of the high cost of the project and the construction time required. The Mission was apprehensive that the simultaneous execution of the Euphrates and other major projects would impose an excessive burden on the available financial resources. Expenditures over a long period of time with no significant increase in production during the extended construction period would be extremely inflationary.

It was suggested that a road network from the Jezirah area to Latakia be constructed rather than an expansion of railroad facilities. New and expanded road facilities would cost approximately \$30 million, compared to the estimated \$55 million for the expansion of the railroad. In addition to modernization of the port of Latakia, it was recommended that approximately \$6 million be invested in an expansion of grain storage facilities, eliminating the need for many farmers to dump their grain on the market during the harvest season.

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In addition to the sources of revenue indicated in the Syrian budget, the Mission suggested that additional revenue (about \$25 million) could be obtained through selective tax increases and an improvement in tax collecting procedures. The growth in the economy would itself provide an increase of 3 to 4 percent per year in taxes and other revenues.

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IV. Western Support for Economic Development

The extent to which Syrian economic development will require external assistance will depend upon the rate of progress desired. Until the announcement of the Six-Year Development Program, Syria had been able to maintain a slow rate of economic expansion without significant external assistance. With a rapid rate of expansion planned for the next few years, however, Syria will have to seek capital from external sources.

A. "Climate" for Foreign Investment

The Syrian political and economic climate for private investment presents a paradoxical picture. The country still has undeveloped agricultural resources and some degree of economic stability. Inflation is not yet a problem and the free market rate of the Syrian pound has been relatively stable for some time. Private ownership of industry predominates. The entrepreneurial group is influential and maintains satisfactory relations with foreign business circles. There are virtually no foreign exchange restrictions. Exchange Control Decree #637 of 21 April 1952 permits free transfer of capital and profits out of Syria, and is designed to foster both short and long-term foreign investment. 39/ The development of a foreign exchange market is primarily responsible for the relative stability of the dollar-pound exchange rate and is a prerequisite for the encouragement of domestic savings.

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On the other hand, there are factors which tend to dampen any enthusiasm for investment of foreign private capital. There is the rather small domestic market which presently confines the expansion and diversification of industrial output in Syria. In a country of only 3.8 million people with low purchasing power it is possible to manufacture economically only a limited range of articles for the home market. This market limitation has been somewhat offset by excessive protection of industry resulting from the priority given to measures designed for national self-sufficiency.

Of even greater significance has been Syria's political instability and rampant nationalism. Government changes have been frequent, with each new government becoming more anti-Western. Nationalization of foreign property has become more frequent. In March 1952, the government issued a decree requiring companies which were established outside Syria to be represented in Syria only by Syrian nationals or by commercial companies owned by Syrians. In addition, the decree requires that a majority of the managers and members of the board of directors of these commercial companies be Syrian. 40/

Decree #189 issued in April 1952 states that only Syrian nationals may own agricultural land. 41/ Broad interpretation of this decree could affect oil-prospecting concessions and leases inasmuch as prospecting is often carried out on land suitable for cultivation.

On 3 April 1956, the Syrian Parliament ratified a law arbitrarily

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ordering "concessionary companies" to increase wages by 16 percent. 42/
There is further legislation pending which would require foreign insurance
companies to deposit cash in Syria instead of using bank guarantees. 43/

B. Foreign Investment

There are approximately 12,350 agencies and branches of foreign
enterprises and 172 joint stock companies registered in Syria. These
firms have invested about \$4 million in commercial activities and about
\$3 million in banking operations. Except for investments in petroleum
pipelines, total British and French investment is probably not large.
United States investment is estimated at \$45 million, of which 90 percent
is in petroleum facilities. 45/ Some important investment in oil explor-
ation has recently been undertaken by an American firm and a West German
consortium. 46/ Due to the current political instability in Syria,
however, it is unlikely that further foreign investment will be undertaken
there in the near future. Several major Western oil companies recently
decided not to expand their present facilities in Syria. 47/

C. Loans and Technical Assistance

Nationalistic and anti-Western sentiment is nowhere more evi-
dent than in Syria's reluctance to accept loans or economic assistance
from Western countries or Western-sponsored organizations. Except for

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United Nations relief aid to the Arab refugees, Syria has accepted only about \$300,000 annually in technical assistance from the United Nations since 1953. 48/ This has been confined to health and educational development and to technical advice provided by small groups of industrial and agricultural experts.

In July 1956, the Syrian Government refused to accept a \$30-million loan offered by the International Bank for Reconstruction and Development. 49/ The Syrians claimed that their new agreement with the Iraq Petroleum Company would provide the required funds for which a Bank loan was sought. It is probable that the Syrian Government may have objected to the supervisory requirements of the Bank and to the 4.75 percent interest rate. In addition, the rising anti-Western sentiment and probable desire to benefit from anticipated East-West competition also may have influenced the decision.

As far as is known, the only government-to-government loans accepted by Syria from the West have been a \$105,000 Export-Import Bank loan for drilling water wells 50/ and two loans totalling \$16 million extended by Saudi Arabia. In 1950 Syria received a \$6-million loan from Saudi Arabia. In November 1955, Saudi Arabia extended a \$10-million interest-free loan to Syria and postponed repayment of the previous loan. 51/ The loans are to be repaid through normal commodity trade.

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D. Western Construction Contracts

Few significant contracts--private or public--have been awarded to Western firms during the past several years. The following table is a summary of such major contracts as have been awarded to Western companies.

Table 6

Contracts Awarded to Western Companies 1954-1956

<u>Country</u>	<u>Date</u>	<u>Type of Project</u>
West Germany	late 1954	10,000 kw thermal electric plant near Aleppo. <u>52/</u> Construction of 52 km. canal near the Ghab. <u>53/</u>
Belgium	1956	Survey of Jezirah-Latakia Railroad. <u>54/</u>
Netherlands	1956	Construction of buildings at Aleppo and Mezze (Damascus) airports. <u>55/</u>
United States	1956	Survey of Hejaz Railway. <u>56/</u>
Denmark		Latakia port survey. <u>57/</u>
Italy		Survey of 250 km. road from Raqqa to Qamishli. <u>58/</u> Two drainage canals in the Ghab. <u>59/</u>
Switzerland		Survey of a dam on the Orontes River. <u>60/</u>
Sweden		Drilling of ten water wells. <u>61/</u>
Yugoalavia	1954-56	Several projects.*

* See Section IV F for Yugoslav activities in Syria

Since the outbreak of hostilities in the Middle East, an agreement with a British company for drawing up plans for the construction of the International Airport in Damascus has been cancelled, as have various agreements with French and British firms for executing a number of small public works projects. 62/

E. Trade with the West

Trade with the West in 1955 comprised about 97 percent of Syria's total trade. France, Lebanon, and the United Kingdom accounted for approximately one-third of this trade (see Table 10.) Although complete trade statistics are not yet available, it is likely that there will be an increase in the proportion of trade with the Bloc and some change in the pattern of Syria's trade with the West. It appears, however, that the bulk of industrial and agricultural commodities required for Syrian consumer requirements and economic development will continue to be imported from the West. The most important commodities imported from the West are fuels, machinery, precious metals, iron and steel products, automobiles and other vehicles, and silk products (see Table 11). Iraq and Saudi Arabia provide almost all of Syria's petroleum requirements. The United Kingdom, the United States, France, and West Germany provide the bulk of the other important commodities imported by Syria.

Syria's major exports to the West are raw cotton, wheat, barley, and wool (see Table 11). France generally takes about half of Syria's cotton exports--the major source of foreign exchange earnings.

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Lebanon imports nearly all of Syrian exports of livestock and sizeable quantities of wheat, barley and wool.

A record crop during 1956 provided Syria with an exportable surplus of 80,000 metric tons of cotton, 300,000 metric tons of wheat, and 400,000 metric tons of barley. 63/ Bloc activity in the Syrian cotton market raised prices to a level sufficient to price French importers out of the market after France had contracted for only 5,000 tons. 64/ Approximately 50 percent of Syria's cotton surplus had been purchased by the Bloc by the end of January, 1957. 65/

Activity in the wheat market during 1956 was characterized chiefly by political rather than economic decisions. France had contracted for shipments of 75,000 metric tons, but public reaction to the Algerian crisis forced the Syrian Government to embargo all shipments of wheat to France. The ban denied exporters access to a major importer and forced the price of wheat on the domestic market to drop. 66/ (France was offering 15 to 18 percent higher prices than other countries.)

Several months after the imposition of the ban the Government concluded an agreement to export 100,000 metric tons of wheat to Egypt, at a rate of 20,000 tons a month. 67/ The Syrian Government reportedly agreed to sell the wheat to Egypt at a low price and is meeting difficulty in fulfilling its commitment because domestic producers are balking at this government established price level. In addition, Syria is having

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difficulty in chartering ships to transport the wheat.

Syria's surplus of barley has found a ready market. Belgium has been replaced by West Germany as the major market and Yugoslavia has appeared as a major importer. Czechoslovakia is reportedly active in the market and other shipments are scheduled for Western Europe. The following table presents preliminary data of Syrian exports of wheat and barley during the 1956 export season.

Table 7

Syrian Exports of Wheat and Barley, June-September 1956
(metric tons)

	<u>Wheat</u>	<u>Barley</u>
Italy	14,400	31,000
Yugoslavia	-	28,100
Belgium	400	56,400
Rumania	-	14,500
Denmark	-	17,400
West Germany	5,200	66,400
France	800	500
Netherlands	4,600	10,800
Bulgaria	-	2,200
Egypt	1,244	-
Others	<u>10,700</u>	<u>5,300</u>
TOTAL	37,300	232,600

Syria is presently faced with the problem of disposing of its major industrial export--textiles. Growing competition in neighboring Arab states from Japanese and Eastern European textiles is pushing the higher-priced Syrian goods out of traditional markets, especially in

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Iraq. Some sales are being made in Saudi Arabia, Sweden and Switzerland but Syria is still finding it difficult to develop new markets for its textiles. 68/

F. Yugoslav Economic Activities in Syria

Syria's commerce with Yugoslavia has expanded considerably. In 1955 trade between the two countries reached a level of about \$2 million. In 1956, trade was at an annual rate of approximately \$3.3 million over the first three months and is expected to register an increase in the balance of the year. During all 1955, Yugoslavia imported only 8,360 metric tons of barley, whereas in the period, June-September 1956, imports of 28,130 metric tons of barley were registered.

The Yugoslavs have been successful in obtaining a number of important construction contracts in Syria. In the Fall of 1952, Yugoslavia was awarded contracts for a major part of the project to develop Latakia into a modern seaport. The portion contracted for was to have been completed by the end of 1956. 70/ The Syrian authorities were so pleased with the work the Yugoslavs had done that it appears probable that the remainder of the project will be awarded to them. 71/ In September 1953, the Yugoslavs received a \$1 million contract to begin the initial work on the Ghab reclamation project. The project was to be completed within two years after work commenced. 72/

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In early 1956, a Yugoslav company was awarded a contract to drill sixty desert waterwells in Syria 73/ and immediately dispatched 50 teams of drilling technicians to execute the contract. 74/

The Yugoslavs are actively bidding on a wide variety of projects. They were one of the first to submit a bid on the petroleum refinery project. 75/ When a Belgian firm was awarded a contract for the survey of the Jezirah-Latakia Railway, the Yugoslavs attempted, unsuccessfully, to reverse the decision with a cut-rate offer. 76/ In reply to a Syrian request for bids for the construction of a number of silos, the Yugoslavs underbid the lowest Western offer by 70 percent. 77/ The Yugoslavs are one of three leading contenders for the award to survey the Euphrates Valley complex. 78/

Recently Yugoslavia has become involved in arms negotiations with Syria. Two Syrian military representatives are reportedly negotiating for additional arms and may have already purchased approximately \$130,000 worth of rifles. The Syrians plan to accredit a military attache to Belgrade. 79/

Yugoslavia has plans for further expansion of trade with Syria and other Arab countries. The Yugoslav Foreign Trade Committee has established a special group to concern itself solely with the Middle East area.

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It contemplates selling goods on short term credit and promoting cooperation between individual firms and manufacturing enterprises of Yugoslavia and the Arab countries. 80/ In addition, each of the Yugoslav embassies in the Arab countries are being staffed with several Moslems to facilitate working with the Arab States. 81/

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V. Sino-Soviet Bloc Support for Economic Development

A. Introduction

Until late 1954 Syrian economic relations with the Bloc were confined to a limited commerce, almost all of it with Czechoslovakia. In September 1954, the Sino-Soviet Bloc gave the first indication of a more active economic policy toward Syria. At the First Damascus International Fair the participating Bloc countries constructed elaborate pavilions, displayed extensive lines of commodities, and otherwise dominated the exhibition. With the initial propaganda benefits, thus obtained, the now familiar pattern of Bloc economic penetration began to unfold. Numerous delegations with authority to sign commercial agreements appeared in Damascus with increasing frequency. Bloc commercial representatives offered to sell commodities at below-market prices and to buy Syrian commodities at premium prices. Commercial offices were opened in Damascus and Bloc commodities were advertised extensively in local newspapers. Local representatives for Bloc trade organizations began to appear throughout the major cities of Syria. Commercial, scientific, technical and cultural delegations were exchanged and numerous, though vague, offers of assistance for Syria's economic development program were extended. By the time of the Third Damascus International Fair in September 1956, Syria had signed trade agreements with Communist China and all the European

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Bloc countries. The foundation for an expansion of trade relations appeared to be firmly established.

B. Expansion of Economic Relations

1. The Damascus International Fair

The Damascus International Fair, the most important of the trade fairs held in the Arab countries, serves as an important mechanism for the expansion of Bloc economic relations not only with Syria but with other Arab countries as well. Since the first fair was activated in September 1954, the Bloc has dominated the fairgrounds with elaborate pavilions and well devised propaganda. At the first fair, the Soviet Union, Communist China, Czechoslovakia, Hungary and Bulgaria presented the most spectacular pavilions and attracted the most visitors. §2/ These countries displayed everything from heavy industrial equipment to foodstuffs and clothing, with major emphasis upon those commodities necessary for a suitable expansion of agricultural and industrial production in the region. (See Table 12).

The USSR did not participate in the second fair but the Bloc was represented by Communist China, Czechoslovakia, East Germany, Hungary and Poland. The Bloc again dominated the event, with the pavilion of Communist China the most popular.

Bloc participation at the third fair was particularly important as every European Bloc country and Communist China had

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displays. Several of the Bloc countries advertised heavily in local newspapers and the Bloc pavilions again were among the most impressive of the Fair.

With the exception of the East German and Czechoslovakian exhibits, it appears that the main purpose of the Bloc pavilions was to impress the Syrian public with the range and capabilities of industry in communist countries. Many of the Bloc representatives at the displays refused to discuss prices, credit terms, or delivery terms. Observer reports indicate that the various displays of heavy industrial equipment made little impression upon a country with no prospect of developing heavy industry. Many of the consumer goods displayed could not have been designed for sale in a consumer market with limited purchasing power. Much of the advertising undertaken by the Bloc during the fair was of a general nature, without reference to specific commodities.

The displays of the East Germans and Czechs, although tinged with propaganda, appear to have been successful in selling the commodities displayed. In 1954, the Czechs reportedly closed contracts for about \$1 million worth of commodities of the types displayed at the Fair. ^{83/} The East Germans claimed to have arranged for \$3 million worth of business by the end of the 1956 Fair. ^{84/} Representatives of both these countries offered commodities at low prices and were willing

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to extend favorable credit terms. 85/

Available information indicates that the commodities displayed by the Bloc were generally inferior or obsolete when compared to Western products. It must not be overlooked, however, that to countries in the early stage of industrial development the low cost of such equipment may far outweigh the slight disadvantages of obsolescence. Furthermore, where funds are short buyers will be attracted by payment plans which extend over a long period of time.

The following information is representative of comments made by American officials or Syrian businessmen about the quality of the products displayed by the Bloc during the three fairs. 86/

USSR

Heavy equipment, agricultural and textile machinery generally considered good; consumer goods are generally very poor; prices of Soviet television about 2 1/2 times that of comparable U.S. sets; road-building equipment generally good but not suitable for large-scale operations; Soviet tractors equally as good as U.S. tractors.

Communist China

General appearance of machinery and machine tools seemed quite good; textile machinery on display needed frequent repairs; some machine tools possibly made in the USSR; consumer goods generally poor; agricultural equipment generally acceptable; medical equipment appeared to be copies of obsolete American products.

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- Czechoslovakia Quality of products consistently good; industrial and agricultural equipment regarded highly; medical equipment good; automotive equipment generally inferior; sporting equipment excellent.
- East Germany Industrial and agricultural equipment and consumer goods generally good; rubber products excellent; tractor trailers acceptable; binoculars and other optical equipment excellent; automotive equipment inferior.
- Poland Textile machinery not up to Syrian standards; medical equipment good but priced high; agricultural machinery below Western standards; machine tools comparable to any in Western Europe; autos and trucks inferior.
- Hungary Generally below standard; radios good and low priced; industrial and agricultural machinery inferior.
- Rumania Machinery unfavorable when compared to Italian or French; some goods probably made in USSR; agricultural equipment poor, electrical equipment obsolete; flour milling equipment obsolete.
- Bulgaria Machine tools below standard; agricultural machinery poorly designed; much equipment copies obsolete Western European models.
- Albania Quality generally poor; cloth drab and rough; many products shabby.

2. Influx of Commercial Delegations

The activities of the Bloc delegations at the Second Damascus International Fair soon made it clear that an economic

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offensive was being launched against the Syrian Government. The Chinese, Polish, and East German delegations to the Fair in 1955 all came to Damascus authorized by their respective governments to conclude trade agreements, and were joined late in September by a similarly authorized Soviet trade delegation. 87/ Newspapers contained reports of banquets given by these delegations at which Syrian officials were entertained and impressed with the advantages of closer economic relations. The drift to the left which had characterized the domestic political scene assured Syrian receptivity to these blandishments. The four Bloc delegations were successful in concluding trade agreements with Syria. Since the end of 1955 there has been a steady flow of Bloc trade, scientific and technical delegations into Syria.

3. Market Penetration--Price Manipulation

Techniques employed by Bloc representatives to gain access to some commodity markets include offers to purchase at premium prices, to sell their own products below prices generally prevailing, and to grant favorable credit and payment arrangements. As a rule it has not been possible to establish that the resulting prices are below costs of production in the Bloc. One Syrian businessman reported that East German commercial officials were endeavoring to enter the machinery market by offering their products at "ridiculously low prices" and by allowing liberal credit terms of over 18 months. 88/ As an example, East Germany was

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awarded a contract for lathes when it underbid the next lowest offer by 30 percent. 89/ The Communist Chinese offered to sell 20,000 metric tons of iron bars at about \$97 per metric ton, c.i.f. Latakia, at a time when the wholesale price of iron bars in Damascus was about \$153 per metric ton. They further offered to accept as payment Syrian currency or cotton at the prevailing market price. 90/ A Syrian businessman stated that he has been purchasing Czechoslovakian commodities at low prices, paying 10 percent in cash and the remainder within one year. 91/ At the 1956 Damascus Fair, the Czechs offered to sell various commodities at lower prices than those for comparable Western goods. They offered to accept 25 percent in cash with the order or receipt of documents with the balance payable in 18 months on machine tools, and up to 24 months on trucks and tractors. 92/ The following are additional examples of the methods employed to penetrate the Syrian market:

USSR Offered trucks at less than \$5,000 compared to \$6,800 for American trucks of similar capacity; 93/ sold ball-bearings, manufactured to fit U.S. manufactured automobiles and trucks, at competitive prices. 94/ Offered to sell copies of U.S. automotive spare parts at 50 percent below U.S. prices. 95/

Czechoslovakia Offered to sell locomotives that Syrian business circles considered good in quality at 5-10

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percent less than comparable Western locomotives; payment terms were 10 percent down and the balance in equal installments without interest; 96/ -- reportedly sold tanks to Syria for \$8,640; surplus U.S. tanks were being sold to Saudi Arabia for \$94,500; 97/ offered to purchase a large quantity of barley at 10 percent above the market price. 98/

Hungary

Awarded a large X-ray equipment contract by underbidding the lowest Western offer by 25 percent. 99/

Rumania

Offered agricultural and industrial machinery at prices 20 to 30 percent lower than comparable European goods, and 40 percent lower than U.S. goods. 100/

Bloc

During the wool season in mid-1956, the price of wool was approximately 90 cents per pound. A large influx of wool caused prices to fall considerably. The USSR and Czechoslovakia entered the market and paid some merchants 10 to 15 percent above the market price. 101/ During the 1956 cotton-buying season, a number of Bloc countries succeeded in raising the price of cotton by 17 percent through competitive bidding. 102/

4. Trade Agreements

Until late 1955 Czechoslovakia was the only member of the Bloc which had a trade agreement with Syria. In October 1955, Polish trade representatives signed a trade agreement and within a year Syria had trade agreements with Communist China and every European Bloc country. (see Table 13) The agreements generally require the shipment of Syrian agricultural products and textiles in exchange

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for industrial products, industrial raw materials, and machinery.

These trade agreements have served primarily as instruments of propaganda as actual trade with the Bloc has not assumed major proportions. All agreements, however, do contain provisions for an expansion of trade, if desired.

5. Commercial Offices and Domestic Agencies

One clause of the trade agreements which most of the Bloc countries appear to be implementing is that providing for the establishment of permanent trade offices in Syria. In 1955, the Soviet Union opened a commercial office in Damascus and began to advertise Soviet merchandise in local newspapers. 103/ Permanent commercial attaches or missions were subsequently established by Poland, Hungary, Bulgaria, Czechoslovakia, Communist China and East Germany. In addition to its commercial attache, the East German Government intends to establish a branch of its foreign trade bank in Damascus as a means of simplifying payments arrangements between the two countries. 104/ Expanding economic relations eventually resulted in official recognition of Communist China and an agreement with East Germany for the establishment of an East German consulate in Damascus. 105/ As yet, the consulate has not been activated.

The policy of granting exclusive agencies for the sale of specific commodities is being used by the Bloc with increasing

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frequency. Numerous agents displaying Bloc commodities have appeared in the more important cities of Syria (see Table 14). In 1955, the Soviet Union granted George Uwayshiq, a high ranking member of the Syrian-Lebanese Communist Party, an exclusive agency for the sale of Soviet automobiles in Syria and Lebanon--the first agency in the Middle East to sell Soviet goods privately. The agency grant was made by the Soviet Legation on the recommendation of Khalid Bakdash, who is a member of the Syrian Parliament and the leader of the Syrian-Lebanese Communist Party. 106/

On 5 July 1956, the Syrian Government authorized the establishment of the Syrian Eastern Economic Development Corporation. 107/ The corporation was organized to handle general merchandise trade with Bloc countries on a commission and representation basis, and also to undertake the construction of industrial plants, the establishment of shipping and transportation agencies, the sale of petroleum products and derivatives, and to extend brokerage and advertising services. 108/ The corporation reportedly was organized at the instigation of the chief of a Soviet technical delegation which had visited Syria in March 1956. The group which subsequently formed the organization was assured that all business transactions concluded in the future between the USSR and Syria would be handled through this corporation. 109/ The manager of the corporation is the above mentioned George Uwayshiq. Of particular

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significance is the appointment of Abd-el-Hadi Rabbat as chairman of the board of directors. Rabbat, a conservative businessman, is one of the most influential industrialists in Syria. His stature could add impetus to the campaign aimed at increasing Soviet-Syrian trade.

6. Trade with the Sino-Soviet Bloc

In 1955, Syria's trade with the Sino-Soviet Bloc totalled about \$7 million and accounted for about 2 percent of Syria's total trade (see Table 15). During the first nine months of 1956 trade between Syria and the Bloc rose to almost \$8 million, or about 4 percent of Syria's total world trade.

The commodities Syria has exported to the Bloc have been traditional Syrian exports--cotton, wheat and barley. Major imports from the Bloc have been such commodities as wood products, cotton manufactures, and glassware. The exchanges of particular commodities have been small and have not reflected the development of any dependence upon Bloc markets or suppliers.

The pattern of trade for 1956, however, will probably show a sizeable increase in Syria's trade with the Bloc. For the next few years, the Bloc should be an important market for Syrian cotton; especially if cotton is to be used as payment for arms recently obtained from the Bloc. During the cotton marketing season in the Fall of 1956, the Bloc entered the cotton market in force. By the end

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of January 1957, purchases of cotton by the Bloc amounted to about 19,000 metric tons compared with about 4,600 metric tons during the entire 1955/56 marketing year. 110/ The Bloc, aside from the cotton accepted in partial payment for arms purchases, reportedly paid cash, did not quibble over prices, and made generous promises of future purchases. 111/ During 1956, Bloc cotton purchases may have been as high as \$13 million. Communist China's cotton purchases alone probably totalled more than \$5 million during this period, compared with total trade of \$318,000 during 1955. 112/

The severing of the IFC pipeline transiting Syria has caused a fuel crisis and forced Syria to turn to the Bloc for imports of petroleum. When Western oil companies in the Middle East indicated their inability and unwillingness to supply Syria with its petroleum needs, the USSR offered immediate shipments of 75,000 tons. Syria subsequently contracted for 40,000 tons of petroleum valued at about \$1.6 million from the USSR. During December 1956 about 22,000 tons were delivered to Damascus. 113/

7. Trade Difficulties

There have been few Syrian complaints reported about the quality of commodities or services of the Bloc. Czech products have generally been well received. One major complaint on the part of the Syrian Government has been the lack of fulfillment of commercial

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agreements signed with the Bloc, especially Czechoslovakia. In January 1955, the Syrian Government sent a note to the Czech Legation pointing out the fact that the Czechs had bought almost nothing in Syria since the signing of the agreement, although the Czechs were obliged, according to the terms of the agreement, to purchase Syrian goods to a value of 75 percent of her exports to Syria. 114/ In 1954, Czechoslovakia exported approximately \$1.7 million worth of goods and purchased only \$5,000 worth of Syrian commodities. In 1955, Czech exports to Syria were double the imports and Syria's imports from the Bloc as a whole were almost four times her exports to the Bloc. The Syrians have occasionally complained about Bloc trade delegations being more interested in purveying propaganda than in concluding commercial agreements. 115/

The sale of East German "IFA" automobiles in Syria was far from a commercial success because of the poor quality of the product. Purchasers complained of the inability of the automobiles to climb hills and of serious engine trouble after only a few months of use. 116/ It has been reported that the purchasers have had their money refunded and the agency has been discontinued. 117/

The distributor of Soviet automobiles has complained that sales are impeded because of the insufficiency of spare parts, service facilities and the general high prices of the automobiles. 118/ The

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insufficiency of spare parts has been a factor in the inability of Rumanian-manufactured machinery to enter the Syrian market to any extent. 119/ In some instances, Syrian importers have received prepaid shipments of various types of goods from Czechoslovakia which were not the styles and numbers ordered. 120/

C. Assistance for Economic Development by Soviet Bloc Countries

Since early 1956, Syria has been subjected to a barrage of offers by a number of Bloc countries to assist in her economic development. Many of the offers have quoted low prices and generous repayment terms. The Syrian Minister of Public Works stated that many Soviet Bloc bids for surveys and construction projects ran about 28 cents to each dollar of American bids. 121/ One Syrian businessman indicated that the high cost of American equipment and technical service was prompting many Syrian businessmen to look with favor upon Bloc offers. 122/

Offers of assistance have ranged from the construction of small industrial installations to general offers of assistance for the complete requirements of Syria's economic development program. Long-term credit arrangements with Bloc countries providing for economic development ventures came to about \$30 million by Spring 1957. At the same time, offers are outstanding for more than \$10 million additional. The contracts which have been signed have, for the most part, been with Syrian businessmen and not directly related to Syria's planned developmental projects (see Table 17).

1. USSR

The USSR has offered the most and probably has accomplished

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the least in assisting Syria in developing her economy. In late 1955, the USSR offered to construct a petroleum refinery at a nominal price. 123/ This offer, assisted by domestic left-wing pressure for acceptance, was largely responsible for the inclusion in the development program of a \$24-million refinery. The USSR, subsequently, dropped out of contention for the refinery contract. A technical delegation headed by Nikolai Melnikov, director of Technoexport, arrived in Syria in February 1956 purportedly to study Syrian industry. 124/ The delegation toured the major Syrian cities, publicizing their visit with indiscriminate offers of economic assistance. In Damascus, Melnikov offered to assist in the construction of textile, cement, and glass plants, a petroleum refinery, an electric power plant, and the Latakia-Aleppo railway. The businessman of Homs and Hama were offered assistance in the construction of cement plants which would require no down payment until the facilities were in operation. In Aleppo, businessmen were offered assistance in the construction of a number of plants, including silk and textile mills. 125/ One firm in Aleppo was offered a cement plant for \$38,000 (excluding excavating machines, electrical equipment and technicians).^{*} A firm in the U.S. had previously placed a bid of \$2 million for the entire project. 126/

In June 1956, Soviet Foreign Minister Shepilov visited Syria and extended offers of political, economic and military assistance. 127/

^{*} This is an unrealistic figure and was probably presented for its propaganda value. The value of the scrap iron in an average cement plant in the United States would be more than \$38,000.

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Shepilov reportedly declared the readiness of the Soviet Union to extend unconditional financial and technical aid to Syria and urged the Syrian Government to draw up a detailed development plan. 128/ Shepilov added that the USSR was prepared to offer whatever aid was necessary for the construction of the Yusef Pasha Dam, the Latakia-Alleppo Railway and wheat storage facilities in the Jezirah, all on long-term payments and at a low rate of interest. 129/ He further promised that the Soviet Bloc would absorb all surplus quantities of Syrian grain and cotton which could not be sold on Western markets. 130/

Recently, Soviet petroleum technicians "affirmed" the presence of extensive deposits of petroleum in the northern regions of Syria and have offered to develop these resources on "normal commercial terms." 131/

2. Czechoslovakia

Czechoslovakia has been one of the more successful Bloc countries in obtaining construction contracts in Syria. The Czechs have reportedly been awarded contracts valued at more than \$21 million, including the construction of a major oil refinery, a sugar refinery, a china factory and two cement plants. (see Table 17) In addition, they have been awarded a contract for the survey of a major cement plant in Hama.

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3. East Germany

The East Germans have been awarded contracts for the construction of two cement plants, several textile factories and a shoe factory. They have placed bids on a number of other projects, including the Latakia-Aleppo Railroad (see Table 17). The cement plants to be constructed by the East Germans--two of three major plants to be constructed by private Syrian businessmen--will eventually supply the bulk of Syria's cement needs. The cement plant in Aleppo was awarded to the East Germans for about \$1.3 million as compared to an American bid of approximately \$2 million. 132/

4. Hungary

Hungary has been awarded contracts to construct three flour mills in Syria and has placed a bid for the contract to construct a highway from Aleppo to Jezirah. In addition, the Hungarians have offered to send mobile technical teams into the agricultural areas of Syria. These teams would be composed of one or two "technicians and/or agricultural experts" and a crew of approximately 10 maintenance men. These units would repair and service agricultural equipment and give advice on agricultural matters. 133/ The effect of Hungary's current economic crisis on these foreign economic activities has not become clear at this writing.

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5. Bulgaria

The Bulgarians have been awarded contracts totalling nearly \$4 million. Included are contracts to construct military barracks, a military airfield and a number of grain elevators (see Table 17). ^{134/} The contract for grain elevators was obtained after the Bulgarians underbid a West German firm by 60 percent. ^{135/} Bulgaria also obtained a contract to undertake a four-year geological survey to determine the prospects for the development of mineral resources. ^{136/} A group of technicians is studying plans for further development of the Port of Latakia. ^{137/} Ten agricultural experts are training Syrians in the use of agricultural machinery in an agricultural school which is reportedly furnished exclusively with equipment donated by Bulgaria. ^{138/} Ten Bulgarian technicians skilled in the operation of diesel engines were scheduled to arrive in Syria during mid-November 1956 and six other technicians arrived in late November 1956 to assist in the construction of military barracks. ^{139/} There are indications that two groups of technicians are being selected to travel to Syria for a survey of possible Bulgarian sites for the construction of a bakery, a cotton gin and seed plant, two railroad stations and a locomotive repair shop. ^{140/}

6. Poland

In January 1956, the Polish firm CEEOP secured a contract

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from Saudi Arabia, Syria and Jordan to survey the reconstruction of the Hejaz Railroad. The contract--\$445,000--secured in competition against Western bidders, was far below Western bids and reportedly would not have covered the contractor's costs. 141/ The contract was subsequently cancelled when Saudi Arabia refused to permit the Polish technicians to enter that country. Ten of the Polish technicians remained in Syria and are preparing an offer for the survey of the Latakia-Aleppo-Jezirah Railroad. 142/

7. Rumania

Shortly before the opening of the Damascus Fair in September 1956, Gheorge Andreescu, Director of the Rumanian pavilion, expressed an interest in assisting Syria in construction of cement plants at Hama and Homs and in the expansion of the railroad facilities in the Aleppo-Latakia area. 143/

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D. The Issue of the Homs Petroleum Refinery

The prospect of Bloc erosion of Western influence in the Middle East petroleum industry, which could result from Bloc construction of a major petroleum refinery in Syria, has caused considerable concern among Western officials. The United States Government considered the situation serious enough to warrant increasing P.L. 480 assistance to certain Western governments if they would agree to subsidize any bid extended by their domestic firms. 144/ The refinery became a major East-West economic issue.

Under an agreement concluded late in 1955, the IFC agreed to provide Syria with 600,000 tons of crude oil annually at reduced prices. The USSR immediately offered to construct a refinery at a nominal price to process the crude oil. 145/ Pressure from left-wing elements in Syria then forced the government to include the construction of a refinery with an annual capacity of one million tons in its Six-Year Developmental Budget. The Syrian Petroleum Institute was created to draw up specifications and call for bids on the project.

In addition to the rather nebulous Soviet bid, Czechoslovakia registered a firm bid and on 20 February 1956 it was rumored that the Czech bid was accepted in principle. 146/ In March 1956 a group of Czech petroleum experts arrived in Damascus and stated that Czechoslovakia could complete the refinery in two years. 147/ The Czechs indicated that they had 350 technicians available and were ready to accept cotton and wheat in payment. 148/

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In addition to the Soviet and Czech bids, the Syrian Government received bids from firms in the United Kingdom, France, West Germany, Italy, Yugoslavia and the United States. 149/ The Syrian Minister of Public Works established an advisory group consisting of one representative each from Czechoslovakia, Egypt and the United Kingdom to study the bids and provide technical advice. 150/

By mid-July 1956, the bids under consideration were narrowed to those from Czechoslovakia and , a US-UK firm. Both placed bids of approximately \$15.7 million but the plans were considered to be technically superior. 151/ Czechoslovakia, however, subsequently lowered its bid. 152/ refused to engage in a "Dutch auction" with the Czechs and was unwilling to place a lower bid without a provision for an escalation clause to compensate for any future increase in labor and material costs. 153/ Yielding to U.S. governmental pressure, however, presented a firm bid, offering to accept 10 percent one year after the contract, 10 percent upon completion of work and 80 percent over 7 years at a low rate of interest. 154/ The Czechs had offered to accept 50 percent upon completion and the balance over 5 years. 155/

With the outbreak of hostilities in the Middle East and anti-Western sentiment at a peak, public pressure mounted for an award to Czechoslovakia. Seeking to find some grounds for compromise because of the technical inferiority of the Czech specification, the Minister of

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Public Works attempted to have the Czechs construct the basic facilities (\$12-13 million) and either the West Germans or Italians construct the highly complex cracking facilities (\$2-3 million). 156/ The West Germans and Italians refused to agree to cooperate with the Czechs on any construction project. 157/ The United States offered to increase its 1957 fiscal-year aid to Italy if the Italian Government would lend up to \$11 million to an Italian consortium which considered placing a new bid for the entire project. 158/

In the meantime there were reports in the Syrian press that the Czechs had presented a new offer to build the complete refinery with the USSR providing technical aid and a catalytic cracking unit. 159/ In late October 1956, a 3-man Czech delegation arrived in Damascus and pressured left-wing elements into calling for an award to Czechoslovakia. It was rumored that the Czech bid had again been lowered. 160/

By the end of November 1956, it became apparent that the award of the contract would be based principally upon political considerations. The Syrian Cabinet was split between a majority in favor of awarding the contract to Czechoslovakia and a dissenting group--including the Minister of Public Works, who is responsible for signing the contract. 161/ By the end of 1956, however, the Cabinet was reorganized and a Minister of Public Works favorably disposed to an award of the contract to the Czechs was appointed. The new Minister stated that the Czechs had lowered their

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bid by 7 percent and were willing to accept Syrian pounds as payment. 162/ President Quwatli informed that the refinery was now a political issue and would probably determine Syria's future political inclinations, but that a lower bid by might influence the decision. 163/ claimed it had lowered its bid as much as was economically feasible and that further consideration was useless since it was likely that Czechoslovakia would again lower its bid. 164/ On March 16, 1957, the Minister of Public Works announced that the contract had been awarded to Czechoslovakia. The construction is expected to take 27 months and entail a foreign exchange cost of about \$15 million. 165/ Syria will be required to pay 10 percent upon signature of the agreement, 15 percent within three months after signature, 10 percent when the refinery commences operations, and the balance in seven equal installments ending 30 June 1966. The loan carries an interest rate of 3 percent on the unpaid balance. 166/ Although the price was not substantially lower than the Procon bid, President Quwatli claimed that the Czech offer had several advantages. In addition to a lower price, the Czechs required a lower interest rate, were willing to accept payment in Syrian goods, guaranteed quality equal to Western processes, and were willing to postpone payment of Syria's arms indebtedness to Czechoslovakia. 167/ Prime Minister Asali stated that 70 percent of the price was payable in Syrian merchandise. 168/ The Czechs also were reported to be willing to revise the Syro-Czech trade agreement as desired by Syria, to provide needed spare parts for military equipment,

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and to furnish additional arms whenever requested. 169/

Although the contract has been awarded to Czechoslovakia, the issue still appears to be unsettled. The award of the contract occurred at the same time that a struggle for power developed between right and left-wing factions in the government. 170/ It may well be that the award precipitated this crisis in the Syrian government.

E. Scholarships

Within the framework of trade and cultural agreements with the Bloc, a clause is generally included which provides for economic and technical assistance. One device used by the Bloc to provide technical assistance is the extension of scholarships to students and professionals for study in the Bloc. Syria has an agreement with the USSR for general assistance within the field of education and has offered scholarships to professors who desire to specialize in the studies of the use of atomic energy. 171/ In addition, scholarships have been offered for the study of language and literature in the USSR. 172/

Czechoslovakia has extended thirty-five scholarships and Poland five scholarships for the study of engineering, mathematics, physics and chemistry. 173/ East Germany offered fifteen scholarships and Bulgaria three for technical, scientific and liberal arts studies in those countries. 174/

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F. The Arms Deals

Since the autumn of 1955, the Soviet Bloc has agreed to sell to the Syrian government arms valued at approximately \$70 million. Prior to July 1956 three separate agreements, totalling about \$45 million, were negotiated: ^{175/} the first for \$12.5 million; the second for \$14-17 million; the third for \$16 million.

Among the major items Syria was to receive from the Bloc were MIG-15's, T-34 tanks, armored troop carriers, sub-machine guns, and quantities of artillery, anti-aircraft guns, rockets, mines, ammunition, radar equipment and medical supplies. ^{176/}

Payment arrangements for the arms--mainly from Czechoslovakia-- may have required a down payment in sterling and the balance in Syrian commodities. One source indicated that the Czechs had agreed to accept 80 percent of the value of the arms in Syrian currency, and the balance in dollars or sterling. ^{177/} In early July 1956, Czech representatives reportedly arrived to arrange for a supply of Syrian barley to be sent to Czechoslovakia; the cost of the barley to be set against part of the cost of the arms being supplied to Syria by the Czechs. ^{178/} As the statistics of barley shipments in Table 7 do not indicate any shipments to Czechoslovakia, it is probable that the negotiations may have been for shipments in 1957.

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In early November 1956, Syria began direct negotiations with the USSR for arms. 179/ This was quite likely a direct result of President Quwatli's visit to Moscow in late October 1956. An arms contract was signed in late November 1956. 180/

181/ The Syrians reportedly requested aircraft, naval vessels and other equipment, the operation of which requires a high degree of technical skill. 182/ There were indications that Syria was negotiating directly with, and being advised by, Soviet Marshall Zhukov. 183/ The Soviet authorities agreed to train Syrian pilots in the USSR. 184/ Approximately 160 Soviet advisors are expected in Syria to assist in the operation and maintenance and to train Syrians in the use of the more complex technical equipment. 185/

It is apparent that the purchase of Bloc arms has placed a severe burden upon the Syrian economy. The Syrian Minister of Finance stated that a financial crisis was imminent as a result of the purchase of Bloc arms. 186/ There are indications that Syria was unable to meet the first installment, and was faced with a budget deficit of about \$70 million. (LS 250 million). 187/ The willingness of the Czechs to postpone the arms payment was undoubtedly an important factor in the award of the oil refinery contract to Czechoslovakia.

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IV. Conclusions

Syria's economic relations with the Western world have been profoundly disturbed by the Soviet Bloc's arrival on the scene as an active political and economic force. In Syria, the USSR has succeeded in synthesizing Arab nationalism with Soviet imperialism into an anti-Western force not equalled elsewhere in the non-communist world. As a result, Syria has moved slowly but steadily to the left. The growth of left-wing parties in itself has not been particularly spectacular and communist ideology apparently has not been a significant factor in domestic economic policy. However, the leaders in Syria, and other Arab countries have hammered so hard on the anti-Western colonialism and anti-Israeli themes that economic relations between Syria and the Western countries have been seriously affected.

Political instability in Syria has adversely affected not only Syrian plans for economic development but the daily operation of the economy itself. Government policy is now characterized by extreme economic nationalism, and the Israeli problem has influenced many economic decisions. The basically conservative Syrian business community has been outshouted by domestic political elements, so that many businessmen have been forced to turn to the Bloc in order to remain in business. Political considerations have profoundly affected Syria's pattern of foreign trade, and economic relations with France and the United Kingdom--

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heretofore two of Syria's most important trading partners--are almost at a standstill.

Syria's economic development must be based upon large-scale investment in agriculture, public utilities and various social undertakings that will not be productive in the immediate future. In addition, much effort will necessarily be channeled into enterprises which constitute the indispensable basis of development--railroads, highways, electric power. The indirect character of the benefits accruing from them, the sheer magnitude of the necessary investment, or the extent of the risks involved, requires government sponsorship of these undertakings. The very nature of these public undertakings, moreover, lies in their long-run character; and private investment in a situation fraught with uncertainties would rather wait upon than assist in the completion of most of these large-scale undertakings. The violence done to foreign investments through destruction of property and nationalization has caused Western capital to shy away from further involvement in Syria. Yet, Syria must attract foreign capital. One of the ironies of the present situation is that Syria depends upon Western markets for the sale of its products and for capital to invest in developmental schemes, and yet Syria has become openly hostile to the West, and fears its political and economic penetration.

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The Sino-Soviet Bloc does not appear willing to become an alternative source of capital to which Syria can turn. There is nothing to indicate that the USSR is prepared to risk extending large-scale loans or grants to Syria, or to seriously negotiate the general offers of assistance made by delegations and missions which have visited Syria. Domestic economic difficulties in Communist China and the European Satellites make them questionable sources of sizeable quantities of future investment capital, although some, especially Czechoslovakia and East Germany, may be expected to continue to obtain construction contracts in Syria. Indeed, it would appear that the USSR has been setting the propaganda stage for economic assistance and then sending the Satellites to do the actual negotiating. The petroleum refinery is an example of this technique.

Rather than assist in Syrian economic development, the economic and political activities of the Bloc have served to bring Syria close to financial collapse through the disruption of trade with the West and increased military expenditures.

Should Syria survive the present political and economic ferment it will still face serious long-range economic problems. The expansion of agricultural production as envisaged in development plans may well fail to provide an adequate solution. Syria is presently a surplus cotton and cereals producer and as other underdeveloped-agricultural

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countries expand production, Syrian commodities will meet increasing competition on world markets. The USSR itself plans to expand cotton production by about 330,000 tons annually by 1962. 188 This expansion alone is more than Syria's total production of cotton.

Although trade between Syria and the Bloc may be expected to expand, an economic foundation for a large-scale expansion of trade with the Bloc does not presently exist. The Syrians might be willing to expand their purchases of industrial commodities from the Bloc, but the economic difficulties in Eastern Europe will compel these countries to seek an expansion of trade with countries which can solve their immediate economic problems.

The Bloc will probably continue to exert economic pressure upon Syria with offers to expand trade and assistance for Syria's economic development program. It is probable that the Bloc will continue to undertake construction projects and, as long as tension exists in the area, continue to provide Syria with arms.

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APPENDIX A

Table S

Syrian Balance of Payments, 1953-4
(US million)

	<u>1953</u>		<u>1954</u>	
	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>
A. Commodities and Services				
1. Imports and Exports	114.3	135.6	159.7	188.5
2. Transit Trade	1.7		2.8	
3. Tourism	4.2	6.7	5.6	19.6
4. Oil Companies	13.7		11.2	
5. Miscellaneous	<u>2.8</u>	<u>1.1</u>	<u>4.2</u>	
Total (A)	136.7	143.4	183.5	208.1
B. Grants and Remittances				
1. Emigrant remittances	2.8		2.8	
2. UN grants to UNRW	<u>2.8</u>		<u>1.1</u>	
Total (B)	5.6		3.9	
C. Capital and Gold Movements				
1. Private Sector	5.6		6.2	
2. Banks	12.9		13.8	
3. IFM payments		1.1		
4. Monetary Reserves		<u>14.6</u>		<u>2.1</u>
Total (C)	18.5	15.7	20.0	2.1
D. Errors and Omissions		<u>1.7</u>	<u>2.8</u>	
Total (A-D)	160.8	160.8	210.2	210.2

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Table 9
Syrian Developmental Budget
1955 - 1961
(\$US 000)

I. <u>New Expenditures</u>		
Administrative Expenses	1,443	
Investments in Semi-Autonomous Government Projects	2,301	
Irrigation Program	24,505	
Road Program		
Construction	8,544	
Maintenance	8,965	
Airports	7,564	
Land Surveys	3,361	
Miscellaneous Construction	14,596	
Ministry of Defense	12,605	<u>83,884</u>
TOTAL NEW PROJECTS		
Appropriations to Existing Projects	1,650	
Appropriations to Existing Commitments for Loans and Advances to Public Projects*	46,443	
Additional Investment in Semi-Auto- nomous Government Corporations	<u>4,202</u>	<u>52,325</u>
Balances Not Yet Used by Existing Projects		<u>48,137</u>
GRAND TOTAL		<u>184,346</u>

* Includes \$S 80 million for a petroleum refinery

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TABLE 10
SYRIAN TRADE WITH THE REST
1954, 1955, 1956 (9 months)

	1954		1955		1956	
	Total	Percent of Total	Total	Percent of Total	9 months 1956	Percent of Total
TOTAL TRADE	308,030	100	322,247	100	196,522	100
Major Trading Partners						
France	41,126	13	46,460	15	19,331	10
Lebanon	47,454	16	36,876	11	34,695	18
United Kingdom	35,071	11	35,892	11	14,802	7
United States	27,548	9	27,370	9	15,502	8
West Germany	25,605	8	25,998	8	16,171	8
Italy	16,687	5	23,472	7	14,222	7
Iraq	7,752	3	17,751	6	10,766	5
Belgium	14,515	5	9,907	3	6,044	3
Saudi Arabia	9,696	3	9,680	3	8,934	5
Netherlands	18,178	6	4,276	1	3,784	2
Others	64,398	21	84,565	26	52,271	27

\$1.00 = LS 3.57

Sources: Ministry of National Economy; Directorate of Statistics, Statistical Abstract of Syria, 1955, Damascus, 1956
 Ministry of National Economy, Directorate of Statistics, Summary of Foreign Trade, Damascus, 1956

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Table 11

Syrian Commodity Trade with the West
(Major Commodities)
1954-31955, Jan.- Sep 1956

(Million US \$)

Imports	1954		1955		Jan-Sep 1956	
	Value	Percent of Total	Value	Percent of Total	Value	Percent of Total
<u>Total Trade</u>	<u>127</u>	<u>100</u>	<u>129</u>	<u>100</u>	<u>99</u>	<u>100</u>
<u>Mineral Ores and oils</u>	13	2	14	7	13	13
Saudi Arabia	4		4		5	
Iraq	-		5		-	
Lebanon	6		1		-	
<u>Machinery, including electrical</u>	16	2	17	2	13	13
United States	4		4		2	
United Kingdom	3		4		4	
West Germany	3		4		3	
<u>Automobiles and other vehicles</u>	10	5	8	4	7	2
United States	3		3		3	
West Germany	3		2		2	
<u>Silk and other products</u>	8	5	7	4	6	6
Italy	2		2		1	
France	2		2		2	
<u>Prepared meats</u>	2	4	11	6	10	10
United Kingdom	4		4		3	
Union of South Africa	-		4		-	
Lebanon	-		-		6	
<u>Iron and steel products</u>	7	4	8	4	6	6
France	3		3		1	
Belgium	1		2		1	

\$US 3.4 IS 3.57
Sources: Ministry of National Economy, Directorate of Statistics, Statistical Abstract of Syria, 1955, Damascus, 1956; Summary of Foreign Trade, First Nine Months 1956, Damascus 1957.

Table 11
(Continued)

Exports	1954		1955		Jan-Sep 1956	
	Value	Percent of Total	Value	Percent of Total	Value	Percent of Total
<u>Total Trade</u>	<u>130</u>	<u>100</u>	<u>133</u>	<u>100</u>	<u>97</u>	<u>100</u>
<u>Raw cotton</u>	35	27	66	49	25	26
France	19		27		11	
United Kingdom	6		8		2	
Italy	3		10		3	
<u>Wool</u>	6	5	9	7	7	7
United States	5		5		4	
Lebanon	1		2		2	
<u>Wheat</u>	6	5	8	6	5	6
Lebanon	6		8		5	
<u>Cotton seeds</u>	2	1	4	3	2	2
Lebanon	1		2		1	
United Kingdom	1		1		1	
<u>Wheat</u>	20	15	3	2	21	21
Lebanon	8		0.3		8	
United Kingdom	1		-		-	
<u>Barley</u>	24	18	2	1	14	14
Belgium	7		0.3		3	
Denmark	4		-		1	
Lebanon	1		0.3		1	

\$US 1 = RS 3.57

Source: Ministry of National Economy, Directorate of Statistics, Statistical Abstract of Syria 1955, Damascus, 1956; Summary of Foreign Trade, First Nine Months of 1956, Damascus 1957.

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Table 12
Syrian Trade with the Sino Soviet Bloc
1954, 1955, 1956 (9 months)

	Total Trade	Total Bloc	Percent of Total	Czechoslovakia	Other Satellite	USSR	Communist China
<u>1954</u>							
Imports	176,067	4,777	2.7	1,692	2,744	116	225
Exports	129,374	1,112	0.8	5	130	-	977
Total	305,441	5,889	1.9	1,697	2,874	116	1,202
<u>1955</u>							
Imports	188,024	5,512	2.9	2,400	2,774	185	153
Exports	131,539	1,625	1.2	1,280	180	-	165
Total	319,563	7,037	2.2	3,680	2,954	185	318
<u>Jan-Sep 1955</u>							
Imports	92,439	2,402	2.6	1,127	1,107	97	71
Exports	84,512	1,266	1.5	951	151	-	164
Total	176,951	3,668	2.1	2,078	1,258	97	235
<u>Jan-Sep 1956</u>							
Imports	98,179	3,132	3.2	1,201	1,873	81	128
Exports	96,702	4,478	4.6	3,119	1,253	-	76
Total	194,881	7,610	3.9	4,350	3,126	81	204

Source: Ministry of National Economy, Directorate of Statistics, Statistical Abstract of Syria 1955, Damascus, 1956
 Ministry of National Economy, Directorate of Statistics, Summary of Foreign Trade, First nine months 1956, Damascus, 1957

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APPENDIX B

Sino-Soviet Bloc Participation in the Damascus
International Trade Fairs

1954-1956

Major Commodities Displayed

<u>Country</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
USSR	Tractors Agricultural machinery Machine tools Textile machinery Electrical equipment Automobiles Textile fabrics Petroleum products Timber products Construction and road-building machinery	No exhibit	Oil-refining equipment Ores Chemicals Agricultural equipment Irrigation equipment Sugar refineries Grain elevators Food-processing plants Diesel engines Road-building equipment Textile products Machine tools
Communist China	Machine tools Medical equip- ment Foodstuffs Engines Textile machinery Electrical equip- ment Rubber products Bearings Bicycles Sewing machines	Pumping equip- ment Electrical equip- ment Construction machinery Diesel engines Mining equip- ment Machine tools Foodstuffs Pharmaceuticals	Machine tools Printing machinery Textile machinery Electrical equipment Iron and Steel products Radios Bicycles Textile products Pumping equipment Tea Agricultural products
Czechoslovakia	Diesel engines Tractors Pumping equip- ment Motorcycles	Diesel engines Mining equip- ment Construction equipment	Tractors Glassware Textile machinery Furniture

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APPENDIX B Continued

Major Commodities Displayed

Country	1954	1955	1956
Czechoslovakia (Continued)	Jewelry Furniture Hunting equip- ment Machine tools	Tractors Trucks Motorcycles Machine tools Electrical equip- ment Sporting equip- ment Automobiles Pumping equip- ment Jewelry Glassware	Motors Trucks and buses Diesel pumps Motorcycles Precision instruments Printing machinery Shoe machinery Musical instruments
Hungary	Wood-working equipment Textiles Freight-loading equipment Buses Electrical equip- ment Tractors Housewares Railroad equip- ment Machine tools	Electrical machinery Machine tools Communications equipment Textiles Sporting goods Pharmaceuticals Motorcycles Trucks Construction machinery	Motorcycles Machine tools Precision instruments Textile machinery Electrical equipment Motion picture equipment Textile products Diesel engines Various consumer goods
Bulgaria	Lumber products Agricultural machinery Industrial machinery	No exhibit	Agricultural machinery Lumber products Ores Agricultural products Machine tools Textile products

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APPENDIX B Continued

Major Commodities Displayed

<u>Country</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
East Germany	No pavilion but exhibited IFA automobiles and delivery wagons	Agricultural machinery Automobiles Electrical machinery Machine tools Chemicals Various consumer goods	Food-processing machinery Pumping equipment Glassware Jewelry Optical equipment Cement-mixing machines
Poland	No exhibit	Machine tools Automobiles Agricultural machinery Motorcycles Irrigation and pumping equipment Mining equipment Textile fabrics Precision instruments Steel products Medical equipment Household utensils Sporting goods	Trucks Canned foods
Rumania	No exhibit	No exhibit	Cement Glassware Agricultural products Mining equipment Machine tools Wood products Building materials Chemicals Pharmaceuticals Housewares

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APPENDIX B Continued

Major Commodities Displayed

<u>Country</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Albania	No exhibit	No exhibit	Textile products Mineral products Building materials Beverages, tobacco Leather products Oil products

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Appendix C

Syrian Trade Agreements with the Sino-Soviet Bloc

<u>Block Country</u>	<u>Period Covered</u>	<u>Value</u>	<u>Commodities Exchanged</u>	<u>Payments Arrangements</u>	<u>Other Important Clauses</u>	<u>Remarks</u>
Albania	Sep 1956-Sep 1957	N. A.	Syrian agricultural products for Albanian coal and asphalt			First agreement
Bulgaria	June 1956-June 1957	N. A.	Syrian agricultural products for Bulgarian industrial raw materials and industrial products			First agreement
Communist China	Nov 1955-Nov 1956	N. A.	Syria exports-cotton, tobacco, wool, cereal, oil seeds, silk and rayon textiles. China exports-machinery, textiles, antimony, liquors, wines, chemicals	\$ 250,000 swing limit	Most-favored-nation treatment. Establishment of permanent agencies Automatic renewal	First agreement
East Germany	Nov 1955-Nov 1956	N. A.	Syria exports-cotton, grain, oil seeds, oils, dried fruit, tobacco, wool. East Germany exports-machinery and transport equipment, medical equipment, metal and chemical products, photographic equipment	All payments in Syrian pounds through a special account. \$5 1.5 million swing	Most-favored-nation treatment Establishment of permanent agencies Automatic renewal	First agreement

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Appendix C
(Continued)

<u>Area/Country</u>	<u>Period Covered</u>	<u>Value</u>	<u>Commodities Exchanged</u>	<u>Payments Arrangements</u>	<u>Other Important Clauses</u>	<u>Remarks</u>
Czechoslovakia	Mar 1953- Mar 1954	N. A.	Syria exports-hides, cotton, fiber, agricultural products; Czechoslovakia exports-industrial and agricultural equipment, electrical equipment	Payments as provided in private contracts; countries authorize transfer of currencies		First Agreement
	Mar 1954- Mar 1955	N. A.				
	Mar 1955- Mar 1956	N. A.			Automatic renewal	
Hungary	May 1956- May 1957	N. A.	Syrian exports-cotton, wool, grain, olive oil, leather; Hungarian exports-heavy industrial goods, electrical equipment, chemical products			First Agreement
Poland	Oct 1955- Oct 1956	\$10 million (est.)	Syrian exports-cotton, fruits, grain, textiles, wool; Polish exports-machinery, metal goods, steel products, autos, textiles, cement, chemicals	Clearing account in US dollars in both banks; \$750,000 arding limit; excess payable in dollars on demand; balance at expiration	Most-favored-nation treatment Automatic renewal	First Agreement

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Appendix C
(Continued)

<u>Host Country</u>	<u>Period Covered</u>	<u>Value</u>	<u>Commodities Exchanged</u>	<u>Payments Arrangements</u>	<u>Other Important Clauses</u>	<u>Remarks</u>
Rumania	Jan-Dec 1956	N. A.	Syrian exports-cotton, seed oil, tobacco, hides, Rumanian exports-timber, paper, machinery, chemicals, petroleum products.	\$300,000 swing limit	Most-favored-nation treatment of permanent delegations	First agreement
USSR	Nov 1955- Nov 1956	N. A.	Syrian exports-cotton, tobacco, oil seeds, wool. USSR exports-industrial products, agricultural machinery, vehicles	US 300,000 swing limit; imbalance settled in goods within six months of termination	Most-favored-nation treatment Automatic renewal	First agreement

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Appendix D

Syrian Agents Offering Sino-Soviet Bloc Commodities

Agents for Czechoslovakian Commodities

Damascus

Shukri Aswad
(Aleppo)

Attar, Mansour & Co.
Yahya, Ayish & Co.
Abdallah Chahine
Izzat Diarbakirli
Al-Fallah Agricultural Machinery Co.
Khalik Fattal & Sons
Ghandour & Habbal
(Aleppo, Hama, Latakia)
Antoine & George Channage

Ahmed Harastani
Khoury & Co.
(Aleppo)
Naccache Bros.

Elie Nafash & Co.
Zaki Mahfouz Nashid

Lambros Papasrandes
Rafleh Shaghuri & Co.
Yassin Tabbaa
Mahjoub & Lababidi
Joseph Rayyal
Lahham Freres
Malass et Kanafani
Naggash Freres
Sawwaf Freres
Maison Ara et Cie
(Aleppo)
Adel Mondia Co.

Leather equipment
Bicycles
Machine tools
Auto equipment
Telephone equipment
Motorcycles and bicycles
Musical instruments
Furniture
Water pumps
Furniture, textiles
Skoda and Tatra vehicles

Machine tools
Agricultural machinery
Pumping equipment
Medical equipment
Leather goods
Sporting equipment
Glassware, porcelain fixtures
Chinaware
Artificial flowers
Jewelry, glassware
Radio receiving sets
Electric motors, flour mills
Canned foods, beer
Buttons
Bicycles, motorcycles
Tire pumps and accessories
Sewing machines
Bathroom fixtures
Chinaware, bathroom fixtures
Textiles
Photographic equipment
Sewing machines

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Appendix D
(Continued)

Zacache Bros. Bayhum, Ajami, Kitabi et Cie (Aleppo)	Building materials Machinery, motors
Tawfig Sanadiki Eastern Economic Development Corp.	Skoda automobiles Textile machinery
<u>Aleppo</u>	
Ara and Co.	Photographic equipment
Zahid R. Elian Nuri Hneidi & Co. Kato-graph Co.	Precision instruments Electrical equipment Motorcycles, bicycles Printing equipment
<u>Hama</u>	
Rafez, Hashweh & Dirgham	Refrigerators, heavy road construction equipment, washing machines.
Termanini & Zihrawi (Homs)	Motorcycles and bicycles
<u>Deir-es-Zor</u>	
Abd al-Baqi Jawd & Bros.	Refrigerators, heavy road construction equipment, washing machines
Awwad Madad	Motorcycles, bicycles
<u>Hasnatcheh</u>	
Antoun Naim Hamdi Ulsawi & Son	Motorcycles, bicycles Refrigerators, washing machines, heavy road con- struction equipment
<u>Homs</u>	
Rislan & Shahin	Refrigerators, washing machines, heavy road building equipment.

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Appendix D
(Cont'd)

Latakia

Muhammad Saïd Shreïqi

Motorcycles, bicycles

Qamishli

Bustani Bros.

Tractors, refrigerators
Road construction equipment
Agricultural equipment

Agents for East German Commodities

Deirazzus

Toufik Sanadiki
Sawwaj Freres
Khalil Fattal et Fils
Marcel Karah
Hisham Hasan Jaffan
Majid Kuzbari
Maison Marawi
Ismar Fauzi al-Wafei
(Aleppo)

Photographic equipment
Rugs, kitchenware
Optical equipment
Textiles
Watches, calculating machines
Typewriters
Adding machines
Dental equipment

Finan Masali
Nazih Tarabayn
Photo Derzi
Arts et Musique
Shafiq Nahas
Abd-al-Karim Najî al-Masarani
Nicola and Musa Debai

Rubber products
Printing equipment
Motion picture equipment
Musical instruments
Textile machinery
Motorcycles
Drugs

Aleppo

Hinkieh Freres
Elïan et Rabbath

Foodstuffs
Writing equipment

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Appendix D
(Continued)

Commercial Agents for Hungarian Commodities

Damascus

Khalil Fattal & Sons	Pharmaceuticals Furniture Textile products Rubber products Hardware
J. Suwayd	Medical instruments
Salkatex	Buses
Arab Trading and Engineering Company	Medical equipment Precision instruments
Sayjal-Din Tabbakh	Motorcycles
Sawwah & Co.	Bicycles, motion picture equipment
George & Antoun Aharnage	Machine tools
Hagan Meher Hamviah	Radios
Khoury, Saouneh & Co.	Sewing machines, kitchenware, electrical equipment

Representatives for Hungarotex - textile products

Eastern Trading and Agency Co.
Baghadi & Acoad
Haffar & Mallas
Jallad Muhammad Hani
Bitar Co.
Mulbaki Co.
Succar Co.

Representatives for Agrimax - agricultural products

Eastern Trading and Agency Co.
Bashir & Mustafa Nar
Elian Rabbat

Representatives for Technoimpex - industrial equipment

Avedia Milletbachian

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Appendix D
(Continued)

Commercial Agents for Bulgarian Commodities

Nicolas Matuq - Damascus Wood products

Commercial Agents for Polish Commodities

Maayaa, Khatar & Co. Flour mills

Commercial Agents for Rumanian Commodities

Kalai Bros. - Damascus Various industrial and agri-
cultural machinery

Commercial Agents for USSR Commodities

George Uwayshig Automobiles

General

Syrian Oil Refining and Distributing
Company Petroleum products
Nazih al-Hakim (El-Safeer Agency) Coordinating Bloc advertising

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APPENDIX E
Sino-Soviet Bloc Economic Assistance to Syria, 1953-56
(Contracts and Offers) (Million U.S.)

Block Country	Project	Details	Contract	Offer
Czechoslovakia	Sugar refinery including distillery, power plant and other auxiliary units. 193/	U	1.7	
	China Factory 199/	U	.2	
	Cement plants 191/	Two estimated cost at 2.24 each	4.5	
	Engineering survey 192/	Hama cement plant (\$3,000)		10.0
	Airport 193/	Damascus International Airport		0
	Railroad 194/	Latakia-Aleppo-Jesirah		
	Petrochem refinery 195/	To be completed within 27 months, 10 percent down payment, 15 percent on receipt of documents, 10 percent by end of construction, remainder in 7 years at 3 percent interest. 70 percent payable in Syrian commodities		
			<u>15.4</u>	<u>10.0</u>
			<u>21.5</u>	

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APPENDIX E

(Million \$U.S.)

<u>Base Country</u>	<u>Project</u>	<u>Details</u>	<u>Contract</u>	<u>Order</u>
East Germany	Cement plant 196/	Homs; 200 tons daily capacity	U	
	Cement plant 197/	Alleppe; 600 tons daily capacity, price c.1.4. Beirut; delivery completed within 15 months	1.3	
	Weaving mill 198/	U	.1	
	Textile factory 199/	U	.5	
	Machinery for a textile factory 200/	Delivery during 1956	.3	
	Cotton spinning mill 201/	Alleppe; 3,800 spindles	.5	
	Shoe factory 202/	Output of 500 pairs daily	.1	
	Cotton-spinning mill 203/	U	U	
	Hydroelectric plant 204/	Hama	.1	
	Aluminum plant 205/	U	U	
	Kamitlone plant 206/	Manufacture of 20 mm shells and grenade casings	U	
	Railroad 207/	Latakia-Aleppe	2.8	.1

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APPENDIX B Continued

(Million \$U.S.)

<u>Blgc Country</u>	<u>Project</u>	<u>Details</u>	<u>Contract</u>	<u>Offer</u>
Hungary	Flour mills 208/	Aleppo-one 60-ton wheat flour mill Homs-one 90-ton wheat flour mill Homs-one 100-ton wheat flour mill	0	0
Bulgaria	Highway 209/ Grain elevators 210/	Probably Aleppo-Jezirah Northern Syria; principally Latakia; 17 Oct 56; completion in 24 months	1.0	0
	Geological survey 211/	To be completed in 4 years; employ 40 technicians	1.0	0
	Military barracks 212/ Military airfield 213/	To be constructed in Latakia	0	0
	Damascus International Airport 214/	To be constructed at Dumayr	1.4	0
	<u>MINIMUM TOTAL</u>		<u>3.4</u>	<u>0</u>
			<u>21.2</u>	<u>10.1</u>

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Office Memorandum • UNITED STATES GOVERNMENT

TO
THRU
FROM

DATE: 5 July 1956

SUBJECT: • Transmittal of ERA Project No. 42.1049, "Soviet Bloc and Western Support for Economic Development in Indonesia"

1. Transmitted herewith are three copies of the subject report together with a memorandum by the responsible analyst certifying as to the appropriate classification of the materials contained therein.

2. The purpose of the paper is to present the Soviet Bloc and Western assistance to Indonesia in terms of the economic development plans drawn up by the Government of Indonesia.

3. Information developed in the study shows that, up to now, the Bloc has not been an important trading partner of Indonesia nor an important source of capital funds. However, it also indicates a substantially increased tempo of Bloc interest in the Indonesian economy and a reciprocal Indonesian interest in diversifying its sources of capital imports. The time is, therefore, ripe for serious evaluation of alternative policies and actions which the U.S. may initiate with respect to orientation of Indonesian economic development toward the West.

4. On the whole, the paper is quite well written. *[Name]* has done a very fine job in bringing together and analyzing the pertinent material. Aside from two brief earlier papers on Bloc "trading delinquencies," this represents her first major research effort in which she has had the opportunity to take an assigned topic through the complete research process from project planning to final draft. She did this with a very minimum of detailed supervision.

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5. For the present, the study should go to the requestor only. It is being reviewed for downgrading to the straight Secret level with a view to proposing publication as a PR in the near future.

(5 July 1956)

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IP-463

Part I

FOR INFORMATION OF THE DIRECTOR
RELEASE AS REQUESTED
1979

SOVIET BLOC AND WESTERN SUPPORT FOR
ECONOMIC DEVELOPMENT IN INDONESIA

(Project # 42.1049)

29 June 1956

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Summary and Conclusions

Indonesian trade in 1955 with the Sino-Soviet Bloc, although still a small share of total trade, has shown a sizeable increase over previous years. During the past several years the Bloc countries have made considerable efforts to increase trade and economic relations with Indonesia. These efforts have included the conclusion of trade agreements, the establishment of permanent trade missions, participation in the Djakarta International Trade Fairs and, more recently, offers of technical assistance for Indonesia's economic development. During 1956 the Bloc has intensified its efforts to develop closer relations with Indonesia. In April the Soviet Union made its first concrete proposal to give Indonesia economic assistance for development in all fields. Two agreements providing for Czech assistance were announced the same month. President Sukarno received and accepted invitations to visit the Soviet Union and Communist China. Indonesia also accepted invitations to send a parliamentary mission to the USSR, Poland, Czechoslovakia and Communist China.

To date the Sino-Soviet Bloc has provided Indonesia with known credits totalling approximately \$9.6 million and an estimated \$100,000 in grants. The largest Bloc credit has been an \$8.0 million credit extended by East Germany in 1955 for the construction of a sugar factory. A \$1.6 million credit was extended by Czechoslovakia in 1956. Prior to 1956, Bloc technical assistance had been on a small-scale. It now appears that the Bloc desires to participate in Indonesia's economic development on a large-scale. Current

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offers by the Bloc have closely paralleled the general objectives of Indonesia's Five-Year Economic Development Plan.

The amount of Bloc aid has been small compared with the assistance Indonesia has received from the US. Total US assistance to Indonesia since 1950 has amounted to approximately \$148 million which includes a \$100 million Export-Import Bank credit extended in 1950. An agreement under Public Law 480, signed in March 1956, provides an additional sum of \$77.4 million to be used for economic development purposes.

With Indonesia's economic development severely handicapped by a lack of capital and a shortage of skilled personnel, it is apparent that Indonesia will require appreciable outside assistance if an extensive development program is to be undertaken. The Indonesian Government, in line with its neutralist policy, has indicated its willingness to receive assistance from any source provided it contains no political or military commitments. Indonesia will probably continue to seek a large share of its capital and technical assistance requirements from the Free World, but there is an increasing receptivity to Bloc offers of assistance. If the Bloc countries continue to make offers which conform to Indonesia's needs, an increasing amount of Bloc aid will probably be accepted.

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I. Foreign Trade

Sino-Soviet Bloc trade in 1951-1954, as shown in Table 1, represented an insignificant percentage of Indonesia's total trade. Indonesian trade with the bloc countries in 1955, although still a relatively small share of total trade, showed a sizeable increase over 1954. Indonesian exports to the bloc in 1955 totalled \$33,898,000 (3.6 percent of total exports) compared to exports in 1954 of \$9,082,000 (1.1 percent of total exports). Similarly, Indonesian imports from the bloc in 1955 increased to \$40,366,000 (6.6 percent of total imports) from \$15,333,000 (2.4 percent of total imports) in 1954. 1/ The gradual increase in the volume of trade with the bloc evidenced in the first half of 1955 was somewhat offset by a decrease in the second half, partially attributable to the policy of the Harahap Cabinet which restricted Czech, Polish and Hungarian imports from July to mid-December because of unfavorable trade balances. 2/

Czechoslovakia, Communist China and Hungary are Indonesia's most important bloc trading partners. Rubber, copra, pepper, coffee, cane sugar, and coconut oil are exported to the bloc countries in exchange for light manufactures notably textiles, cement, motorcycles, and machinery.

Of Indonesia's three principal export commodities - rubber, tin and petroleum - only rubber is exported to the bloc, although under the current bloc agreements tin is included on Indonesia's export lists. Even though rubber accounted for approximately 63 percent of total Indonesian exports to

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the Bloc in 1955, ^{RUBBER} exports to the Bloc accounted for only 5.6 percent of total Indonesian rubber exports. In 1956 low rubber exports began to evoke reactions in the Indonesian rubber producing areas. Further alarm was evoked by President Eisenhower's statement to Congress that the US could be self-sufficient in synthetic rubber production within two years. 3/ On 7 June 1956 an Indonesian Cabinet decision to lift the embargo on rubber shipments to Communist China was announced. Although the Bloc provides only a relatively minor market for Indonesian rubber, it is apparent that with a decline in rubber exports Indonesia will be under pressure not only to expand rubber shipments to the Bloc countries but also, with the recent Indonesian cabinet decision, ^{to} take steps to open possibilities for the export of rubber to Communist China. In 1955 the Bloc took significant proportions of certain agricultural products, as follows: coffee, 7.5 percent; copra, 11.4 percent; sugar, 18.8 percent; spices, 38.6 percent and coconut oil, 92.4 percent. 4/

Commodity statistics for the first half of 1955 show that textiles accounted for about half of the Bloc exports to Indonesia, while cement and semi-finished iron and steel accounted for about 10 percent each, with miscellaneous light manufactures making up most of the balance. 5/

Bloc supplies of textiles to Indonesia increased considerably in the first half of 1955. Although they had sold only about \$2 million worth of textiles to Indonesia in 1954 (2.3 percent of total textile imports), they sold over

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\$12 million worth in the first six months of 1955, increasing the Bloc's share of this import market to 18.5 percent (see Table 2). 6/ Indonesia is highly dependant upon external sources for textiles since only 10 percent of her requirements are met by domestic production.

The Bloc is not limiting its sales in the textile field to textiles alone. Czechoslovakia provided 29.2 percent of Indonesia's imports of

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textile machinery in the first half of 1955. Whereas Czech sewing machines comprised only 0.4 percent of the total imported in 1954, their share increased to 12.5 percent in the first half of 1955.^{8/} Bloc overtures in this field have not come solely from Czechoslovakia. Communist China in 1955 offered to provide equipment for textile mills on a long-term credit basis. ^{9/} East Germany also has made offers of equipment, and following the 1954 Djakarta Trade Fair it donated an automatic weaving machine and two knitting machines to the Textile Research Institute in Bandung. ^{10/}

In view of Indonesia's intended expansion of its textile industry, the Bloc may continue to be an important supplier of equipment. In 1954 Indonesia had 65 textile mills in operation and the industry was equipped with about 95,000 spindles and an estimated 12,000 mechanical looms and 70,000 hand looms. ^{11/} In September 1955, the head of Indonesia's Textile Research Institute, Dr. Safun, accepted an invitation to visit a Czech textile machinery exhibit. Before his departure he declared that Indonesia at that time had only 20 percent of its minimum requirements of textile machinery. ^{12/} The potential impact of bloc equipment upon Indonesia's textile industry is therefore significant.

II. Sino-Soviet Trade Promotional Activities

The Sino-Soviet Bloc countries have made considerable efforts in the past several years to promote and increase trade and economic relations with Indonesia. These efforts have included the conclusion of trade agreements, the establishment of permanent trade offices in Djakarta, active

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participation in the Djakarta International Trade Fairs, and intensified advertising. In April 1956, soon after the installation of the Ali government, invitations to visit the USSR were issued to President Sukarno and an Indonesian Parliament mission - both of which have been accepted. 12/ Shortly after the Soviet invitations were issued, several other Bloc countries, including Communist China, extended invitations to an Indonesian parliamentary delegation.

A. Trade Agreements with Bloc Countries

Indonesia currently (June 1956) has trade agreements with Czechoslovakia, Hungary, Poland, Rumania and Communist China. An agreement between the East German Chamber of Foreign Trade and the Indonesian National Trade Organization expired December 1955.

Under the Ali Government which held office from July 1953 to August 1955 government policy led to a strengthening of trade relations with the Bloc. Closer trade ties were negotiated as trade agreements were concluded for the first time with Communist China, Rumania, and East Germany. In early 1955 the Ali Government began to show disillusionment with Bloc trade; implementation under the agreements had not measured up to expectations; Indonesian products sold to the bloc countries were being resold on the European markets at lower prices; and the Bloc, in seeking outlets in Indonesia, appeared to favor local Communist businessmen. 14/ After the Harahap Cabinet took office in August 1955 special trade patterns - the parallel transactions* formerly

* Under parallel transactions the commodities of one country are exchanged for commodities of the other without transfer of funds.

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used extensively with Eastern Europe - were abolished. Government declarations issued in October 1955 indicated that trade arrangements with the Bloc countries had been unsatisfactory and had resulted in a general deterioration of the foreign exchange position. The Prime Minister, in a Parliamentary debate, pointed out that raw products exported to the Bloc had been retraded in other markets in direct competition with normal Indonesian exports and that, under parallel transactions, Indonesian exports were usually sold below world market prices with the deficit made up by charging Indonesian consumers more for imports. 15/

The Ali government, which again took office in April 1956, has indicated its dissatisfaction, first expressed in early 1955, with the existing Bloc trade arrangements. It has notified the Eastern European countries of its desire to terminate the existing agreements; however, this measure has been taken with the view that new arrangements will be formulated in which the quotas (volume) would be revised and the systems of payment be made on a completely new basis. 16/ Whether or not the volume of trade would be increased under new agreements, the Bloc would probably continue to maintain a large amount of its trade because of established connections with Indonesian businessmen and increased Indonesian familiarity with Bloc products. The current status of the bloc agreements are given below:

Czechoslovakia 17/

After protracted negotiations, resulting from Indonesian reluctance to include its "strong" commodities - rubber, tin and copra - in the agreement to avoid the loss of local currency earned from the normal sale of these commodities, the agreement

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was finally renewed in late July 1955 for the period ending 14 July 1956. The agreement envisaged trade in each direction of 6 million pounds sterling, almost a 100 percent increase over the previous agreement. Indonesian export quotas included 16,000 m.t. rubber, 3,000 m.t. of copra and 500 m.t. of tin; Czech export quotas for machinery and textiles were significantly increased.

Hungary 18/

The Indonesian-Hungarian agreement was automatically extended to 30 June 1956. Under the previous agreement the largest Hungarian export quota consisted of textiles, followed by industrial machinery motorcycles and household articles. The previous agreement provided for total trade amounting to 130.5 million rupiahs. (approximately \$11.75 million) *

Poland 19/

The Polish agreement signed 6 September 1955 for the period 1 May 1955 - 30 April 1956 provided for total trade of 3.6 million pounds sterling, the same as under the previous agreement. It was reported that Indonesia had refused a Polish request to raise the anticipated level of trade to 12 million pounds sterling - an apparent reflection of the government's attitude toward bilateral agreements in general and especially those with the Bloc. Polish offers of credits and technical assistance and the possibility of direct shipping services between the two countries were discussed during the negotiations, but no agreement has subsequently been concluded on either of these points. Principal Polish export quotas include textiles and machinery (including textile machinery); Indonesian export quotas include 500 tons of tin, 5,000 tons of rubber and 1,500 tons of copra.

Communist China 20/

The agreement with Communist China was automatically renewed for a year ending 31 July 1956 under the provisions of the previous agreement. The previous agreement provided for total trade of 6 million pounds sterling. An Indonesian trade delegation was scheduled to depart for China in July 1955 for the purpose of negotiating an enlarged pact providing notably for increased textile imports, but the trip was postponed indefinitely. The Indonesian Economic Ministry announced that trade with China was running well and would continue without a new trade agreement.

Rumania 21/

The Rumanian agreement was extended for one year from 1 July 1955. The Rumanian delegation to the 3rd International Trade Fair at Djakarta announced Rumania's intention of expanding trade relations with Indonesia within the framework of the agreement.

* Unless otherwise specified, the official exchange rate of ¹rupiah/\$.087 has been used throughout the paper.

Bulgaria 22/

A preliminary agreement between Bulgaria and Indonesia was announced in December 1954. The head of the Bulgarian delegation to Indonesia in June 1955 announced that the first trade transactions between the two countries would take place late in 1955 or early in 1956. Bulgaria will sell cement, porcelain, textiles and electrical products in exchange for Indonesian agricultural products.

USSR 23/

Indonesia does not have a trade agreement with the USSR. In April 1956 the Soviet Ambassador proposed the conclusion of a trade agreement between the two countries. The Indonesian Government indicated the entire question of trade agreements was still under consideration and that interested governments were being informed that Indonesia was not immediately prepared to negotiate an agreement with anyone. Nevertheless, at the time the Indonesian Government undertakes the planned revisions of the existing bloc agreements, a trade agreement probably will be signed with the USSR.

The Indonesian Foreign Office announced in mid-June 1956 that an Indonesian trade delegation is expected to visit Czech ^{CZECHOSLOVAKIA} and Rumania and trade delegations from the USSR, Hungary, Bulgaria and East Germany are expected in Djakarta to conduct negotiations for trade agreements. For these agreements which expire by mid-July, validity will be temporarily extended pending completion of new agreements.

B. Permanent Trade Offices

Czechoslovakia, Poland, Bulgaria, and Hungary have established full-fledged permanent trade missions in Indonesia, while East Germany and Rumania have had less formal representations there. One of the functions of the trade missions apparently has been to find suitable agents or outlets, preferably Indonesians, for the commodities being offered by the Bloc countries. See Appendix A for a list of local representatives handling Bloc products.

Rumanian Trade Mission - In the latter part of 1955 the Rumanian delegation to the 3rd International Trade Fair announced plans to establish a permanent trade office in Indonesia. 24/ In October 1955 this delegation, composed of technological experts, opened a permanent display of Rumanian products -- pumps, telecommunications equipment, and other machinery -- in Djakarta where demonstrations are arranged daily. 25/

Czech Trade Mission 26/ - A Mr. Polacek has been reported as the principal officer in the Czech Trade Mission which is attached to the Consulate General in Djakarta. Other information has listed R. Kasak as a Czech commercial representative attached to the Consulate General.

Hungarian Trade Mission 27/ - Tibor Fesus, formerly with the Hungarian State Iron and Machine Factory, was reported en route to Djakarta in January 1955 to be Deputy Trade Commissioner. Thomas Valko, Hungarian Export Manager, Hungarian Trade Commission, was listed in Djakarta in February 1955.

East German Trade Mission 28/ - Information in early 1955 reported that the members of the trade representation of the East German Chamber of Foreign Trade included Willi Schild and Kindler (fnu). The address was listed as Hotel des Indes, Djakarta, cable designation "HAVDINDO".

Polish Trade Mission 29/ - Information in July 1955 stated that the permanent Polish Commercial Mission maintained an office at Djalan

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Indramaju No. 9, Djakarta. In May 1956 Wladimir Nink, a member of the Polish Trade Commission, was appointed Charge of the newly-established Polish Embassy in Djakarta.

Bulgarian Trade Mission 20/ - A trade mission, headed by a Mr. Gumaroff, has reopened a trade office in Djakarta.

C. Participation in the Djakarta International Trade Fairs 21/

Communist China, Czechoslovakia, East Germany, Hungary, Poland and Rumania participated in the 3rd International Trade Fair held in Djakarta from 18 August - 26 September 1955. Poland and Rumania had only information booths and East Germany exhibited through a local agent. While the Bloc countries did not dominate the Fair as they had done in 1954, they nevertheless made a very impressive showing. The Czechs were the most aggressive in publicizing their exhibit, running a series of ads in local newspapers about the products on display. As in the past, the Bloc countries used the fair for major propaganda purposes, exhibiting their products in an effort to convince Indonesia they were capable of supplying Indonesian requirements for capital and consumer goods. Remarks made by some Indonesian officials and businessmen indicated that China, Czechoslovakia, and Hungary had to some extent succeeded in establishing such a conviction.

D. Intensified Advertising

The Bloc countries have advertised extensively to promote sales of their products. Polish advertisements appearing in the Indonesian press

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have listed 14 Polish trade organizations which claim to be able to deliver a wide range of goods including heavy capital equipment, ships, and motor vehicles. 22/ The Czech Commercial representative attached to the Czech Consulate General, in an effort to interest local importers in Medan in Czech products, distributed to importers a catalogue listing a wide variety of available products. It included machinery, vehicles and light engineering products, textiles and leather goods, ceramic and glass products. 23/ A Rumanian delegation was also in Medan demonstrating agricultural machinery -- a crawler tractor, a triple-gang plow, disc-harrows and other farm equipment -- to the employees of the Office of Agriculture in North Sumatra. 24/ The Soviet Embassy is planning to launch a large-scale publishing and information program in Indonesia. 25/

III. Economic Development in Indonesia

Economic development has been given high priority by the government, but limited financial resources have prevented Indonesia from significantly increasing its rate of capital investment. Private capital has failed to compensate for the low level of government investment. Governmental policy, conditioned by intense nationalism and directed at the "Indonesianization" of all companies, has sought to limit the economic influence of foreign investors. ~~and its~~ failure to develop a realistic foreign investment law has discouraged reinvestment as well as new investment by foreign capital. Foreign aid programs have been restricted by Indonesian attitudes - a fear

of having restrictions imposed on their sovereignty and freedom of action and a sensitivity to foreign influence. At the same time Indonesia has not had the domestic resources and economic institutions to undertake an extensive economic development program without outside assistance.

In late 1955, however, the Harahap Cabinet, recognizing that available capital in Indonesia was insufficient for its economic development, set up the Foreign Investment Committee, headed by the Planning Bureau Chairman, to study possibilities of foreign capital investments in Indonesia. Pending the enactment of legislation, a Government policy statement on foreign investment was issued in December 1955. ^{36/} In principle the statement welcomed the entrance of foreign capital, both in the form of government loans as well as private investments, in Indonesia. Fields closed to foreign investment would be limited to public utilities, some small industries traditionally operated by Indonesians and industries involving the security of the country. But in other basic industries foreign investors would be permitted to hold up to 49 percent of the capital stock. The statement implied that the draft foreign investment law would give guarantees against nationalization and double taxation and assurances that profits and salaries could be transferred abroad. Although these changes in foreign investment regulations would represent a considerable improvement, it is well established that foreign investors have not been strongly attracted to areas where their

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capital stock ownership has been limited to anything less than 51 percent.

In March 1956 the new government headed by Prime Minister Ali Sastro-
midjojo took office. Prime Minister Ali's policy statement to Parliament
in April 1956 contained the following points of the government's program
for economic development: II/

- a. Initiation of a five-year economic development plan with emphasis on the development of industry and mining.
- b. Elevation of the State Planning Commission to the Ministry of State Planning. Combine and strengthen the organizational set-up of the Economic and Financial Council and the State Planning Commission which are responsible for the supervision of short-term and long-range construction projects.
- c. Division of investment administration into three categories:
 - 1 - Government investment
 - 2 - Private investment (the government plans to give advice in determining priorities for investment and to provide protection against foreign competition)
 - 3 - Village investment
- d. Willingness to receive technical and/or economic aid from abroad on a purely commercial basis "free from any political or military commitments"
- e. Regulation of foreign capital investment by law
- f. Achievement of a balanced budget which is sound and provides an opportunity for continued development
- A. The Role of the Government in Economic Development

Government funds have been the source of almost half of Indonesia's gross investment and are likely to continue to be an important element in future development. Government investment in the past has consisted of diverse projects frequently undertaken on political grounds and often abandoned because of unforeseen developments. Prime Minister Ali, in his

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policy statement, pointed out that the five-year economic development plan (which was completed by the National Planning Bureau at the end of 1955 and which is Indonesia's first comprehensive plan for economic development) would prevent the various ministries from working independently of each other with a resultant waste of energy and money, would insure completion of a project once begun, and would prevent less important projects from being undertaken first. 38/

The draft budget for 1956 includes Rp. 3,686 million for capital expenditures. It is generally estimated that about half of this is replacement and renewal rather than new investment. 39/ Government development expenditure under the 1954 and 1955 budgets included Rps. 2,435 million and 1,300 million respectively. 40/

1. The Five-Year Economic Development Plan

The five-year economic development plan covers such fields of reconstruction as agriculture, mining and manufacturing, power, communications and social affairs. It is hoped that the budget, currently running at a deficit rate of about 1 billion rupiahs a year, can be balanced in the first year of the plan. Financing of the plan is to be effected with 11.4 billion rupiahs from the government, 11.4 billion rupiahs from private investment and 7.2 billion rupiahs from village investment. 41/ Mr. Djuanda, Director of the National Planning Bureau, has stated that the plan is based

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entirely on a realistic estimate of what Indonesia can do with its own resources, with foreign aid or additional sources of foreign exchange permitting implementation of projects of lower priority. There have been recent indications, however, that outside assistance will be required to finance the plan. Djuanda intimated in a conversation with a US official in mid-April his government's intention of requesting aid from the US in implementation of the 5-year plan. 42/ The Indonesian Finance Minister stated on 7 May that only half of the 1956 portion of the 5-year plan would be covered in the budget owing to a decline in anticipated tax revenues. 43/

The plan is scheduled to begin in 1956 and estimates a total government expenditure of 11.4 billion rupiahs (approximately \$957 million) or 2.2 billion rupiahs annually (approximately \$191.5 million). Of the total 11.4 billion rupiahs of government financing, 25 percent would be appropriated for power, 25 percent for transportation and communications, 25 percent for industry and mining, 13 percent for agriculture, migration and village development and 12 percent for social welfare. According to estimates, 6 percent of the national revenues will be invested in the first five-year plan. For the second, third, and fourth five-year plans, amounts have been estimated at 8.6 percent, 12 percent and 16 percent respectively, and for the period after 1975, 20 percent. 44/

The plan does not set specific targets but includes three lists of projects in order of decreasing priority within each list. The

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lists include: (1) special projects, large-scale and multi-purpose, which are to be undertaken by the Central Government; (2) central projects, large-scale and single-purpose, which are to be undertaken by the Central Government; and (3) a recommended list of projects to be urged upon provincial governments and private enterprises. 45/

a. Special Projects

The National Planning Bureau gives priority to the development of electric energy - the Asahan River project and the Djatiluhur Power Station-Irrigation project.

The Asahan Project 46/

Plans include the construction of a hydroelectric power plant at Asahan, North Sumatra with a capacity of 800,000 kilowatts, but only 100,000 kilowatts will be put into use within the next five years, and this will be especially to supply energy to fertilizer plants. The generation of the entire 800,000 kw will ultimately supply cheap electric power to several industries such as the aluminum, paper and cement industries.

The Djatiluhur Project 47/

Plans include the construction of two dams, the Djatiluhur Dam and the Tarum Dam on the Tjitarum River, permitting irrigation of 100,000 additional hectares in Java and ultimately providing for the generation of hydroelectric energy of 350,000 kw for several industries in West Java. It is hoped that the Djatiluhur Dam will be completed in five years.

Other projects included in this list are the iron and steel integrated project, the chemical and fertilizer industry and plans for the development of a rayon industry. Although all of the special projects are at some stage of active study, economic justification has not been established for all of them and work may not be started for a number of years on those projects for which economic justification has already been established.

b. Central Projects

These projects include completion of projects already under way, such as the cement plant at Gresik and various Government projects in the textile industry.

The primary result of the agricultural projects will be to make Indonesia self-sufficient in food and to increase the exportation of agricultural produce in order to acquire foreign exchange. Projects for the improvement of social conditions include transmigration, education, health, and housing.

An outline of the plan is ready for submission to the Cabinet for study and the Minister of State Planning has expressed the hope that the bill on the first five-year plan would be settled in the second session of Parliament.

Recent discussions have taken place on two projects included in the five-year economic development plan. Both of these projects have been given a high priority by Mr. Djuanda.

Steel Mill 48/

The Indonesian press has reported that work on the construction of an iron and steel mill in Lampung (South Sumatra) will be started on 1 June with the dispatch of an 83-member expedition who will conduct a survey for 6½ months of the region's iron ore and limestone deposits. It has also been reported that the State Planning Bureau will start steel and iron mill projects in Djampang Kulon in West Java and in Southeast Kalimantan (Borneo). Another expedition is to survey the Bukitasm coal mines for the possibility of increasing the mines' output.

Urea Fertilizer Plant 49/

Total cost of the planned 100,000 ton annual capacity fertilizer plant at Palembang (Southeast Sumatra) is estimated to be \$40 million, half of which will be procured from foreign sources. The advantages of the plant include (1) reduction in foreign exchange required for imported fertilizer; (2) local availability of raw material (natural gas will probably be supplied by STANVAC); (3) cost of planned domestic product will be about half of imported fertilizer. The American Embassy has stated it believes this project merits the consideration of the Export-Import Bank for a loan to finance the dollar cost of the plant, particularly in view of recent Soviet bloc industrial credit offers (the USSR listed fertilizer plants among the projects it considered suitable for the extension of technical assistance).

2. The National Planning Bureau 50/

General economic planning is the responsibility of the National Planning Board which is composed of the nine cabinet members most directly concerned with economic planning and presided over by the Prime Minister.

The National Planning Bureau is an executive unit of the Board and is responsible for drafting economic plans, programs and proposed policies.

The Director of the National Planning Bureau is Mr. R. Djuanda and the Deputy Director is Mr. Ali Budiardjo. The part of the Bureau in charge of planning is divided into eight sections, each section being responsible for drawing up plans for a certain branch of government activities and forming an intermediary between that branch and the Ministries concerned. In October 1953 the Bureau for the Coordination of Foreign Assistance and the Committee for the Coordination of Foreign Assistance, both previously under the Ministry of Economic Affairs, were abolished and became the Secretariat of the Interdepartmental Coordination ^{Committee} of the National

Planning Bureau. The Interdepartmental Coordination Committee, presided over by the Director of the National Planning Bureau and composed of the Secretaries-General of the Ministries represented on the National Planning Board, coordinates the projects of the different ministries for the utilization of the various forms of foreign technical assistance.

A number of foreign experts, under assistance projects of the UN, the Colombo Plan, etc., are attached to the Bureau as advisors and assistants under the supervision of the director. The services of these foreign experts were utilized in the formulation of the five-year plan. J.G. White Engineering Corporation, which worked under the National Planning Bureau from June 1954 until April 1956 when its contract was cancelled, assisted in surveys of Indonesia's economic needs and in the preparation of specific investment projects. Three French engineers have been working on the Asahan project and an Italian power expert was attached to the Bureau in January 1955. In June 1954 the Indonesian Government requested the services of 10 mining experts from Canada. On 16 April 1956 the government renewed for another three years the UN Technical Assistance Agreement under which advisors are assigned to assist the Planning Bureau in drawing up development plans.

3. Indonesian Industrial Development Corporation Ltd. 51/

In April 1954 the Indonesian Industrial Development Corporation Ltd. was founded under the auspices of the Indonesian Chamber of Commerce.

Ir. Albert Marnix Loemban Tobing was designated General Manager under an Executive Council composed of several officials of the Indonesian Chamber of Commerce. The Board of Directors consists of Ir. Djuanda (Chief of the National Planning Bureau), Ir. Leoh (a leading businessman and former Minister of Public Works) R. Iskandar Tedjasukmana (former Minister of Labor) and the management of the Bank Industri Negara (the state industrial development bank). The aim of this corporation is to assist in and to stimulate the establishment of industrial projects in Indonesia. It offers the following services: the preparation of plans concerning operations, organization, and blueprints and the supply of cost data for the establishment of new factories; plans for improvements in operations and organization of old factories; inducement of domestic and foreign capital to invest in Indonesian industries; mediation between businessmen and the Government or between several industries concerning the establishment of new industrial projects and the facilitation of solutions to the problems encountered; mediation between Indonesian businessmen and international agencies and between Indonesian businessmen and foreign businessmen who are interested in investing capital in Indonesia; and finally the establishment of factories when no initiative is shown by others. It is certain that Sino-Soviet Bloc trade missions and trade representatives will make

strong efforts to win the confidence of the members of the Industrial Development Corporation.

4. Development and Training Institutes 52/

The Department of Industry of the Ministry of Economic Affairs maintains development and training institutes throughout Indonesia. The Institutes are: Industrial Development Institute; Chemical Institute; Materials Testing Institute; Leather Institute; Textile Institute; Ceramics Institute; and Batik Institute. The Institutes' primary function is to provide the basic engineering facilities, services, and trained personnel for implementing the government's program of industrial development. Their secondary function is to provide research and analytical services to the extractive industries. The U.S. through its aid program has been furnishing commodity aid to the Institutes for use in both training and development programs. The services of technical experts, under the UN Technical Assistance Program, have been supplied to assist in the execution of the projects. In addition to the Indonesian staff, there are twenty-two European technicians employed by the government on direct contracts and assigned to these institutes. In view of Indonesia's lack of qualified and experienced technical personnel these institutes, with their primary emphasis on training, play an important part in Indonesia's economic development.

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In May 1956 it was reported that the Indonesian Minister of Education had been invited to head a delegation to the USSR to study the Soviet educational system. 53/ It is anticipated that a Soviet offer of assistance in the fields of technical and agricultural education will follow; an earlier proposal was made by Soviet Ambassador Zhukov for a bilateral agreement for the exchange of professors and students under which Indonesian students could study in Russian universities. 54/ In view of the great need for the training of Indonesians in technical fields and the lack of adequate training facilities in Indonesia, this represents a wide area for exploitation by the USSR. It seems likely that Soviet offers of training will be accepted by Indonesia, particularly in view of the Indonesian practice of recruiting experts from a number of different countries to avoid the danger of any one nationality dominating the program. In view of the importance the government attaches to the continuing placement of foreign technicians in these institutes, it seems probable that Soviet personnel might be attached to several of these institutes.

B. Free World Assistance to and Investment in Indonesia

1. US Assistance

Since 1950 total US assistance to Indonesia has amounted to approximately \$148 million, including a \$100 million Export-Import Bank credit made in 1950, of which \$16.8 million remains unallocated. 55/

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The Eximbank credits have been authorized for the transportation development program, telecommunications development, harbor construction, railroad rehabilitation program, electrification program, forest development program, construction^{of} a cement plant, purchase of aircraft and equipment and marine engines. 56/ Primary emphasis of the US technical cooperation program in Indonesia has been placed on increasing agricultural and fisheries production and on the expansion of public health services and facilities for technical training. Moderate assistance has been given to Indonesia in providing engineering services and improving public administration.

The introduction and distribution of higher-yielding rice and corn seed and assistance in the modernization of the Indonesian fishing fleet have been of particular significance. Special malaria-control projects have been undertaken with notable success. The University of California and Tuskegee Institute are providing technical assistance in the fields of medical education and vocational training. Facilities for technical training include furnishing American experts to help in the development of Indonesian institutions and providing training opportunities in the U.S. for Indonesians. 57/

The PL 480 agreement, signed in March 1956, for the sale to Indonesia of US surplus agricultural commodities valued at \$96.7 million will provide needed local currency funds to assist in Indonesia's

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economic development. 58/ The agricultural commodities covered by the agreement are: cotton, \$36.0 million; rice, \$35.8 million; tobacco, \$15.0 million; and wheat flour, \$5.0 million. Ocean transportation covering approximately 50 percent of the cost is estimated at \$4.9 million. Eighty percent of the rupiah funds (equivalent to \$77.4 million) will be loaned to the Indonesian Government for economic development purposes. The remainder of the rupiah proceeds (equivalent to \$19.3 million) will be spent by the US for market development activities, the purchase of strategic materials, defrayment of US expenses and the financing of international educational exchange activities.

2. Other Free World Assistance to Indonesia

Apart from the Netherlands loan of 1950 for \$73.7 million, assistance from other Free World countries has been small. In 1954 the Minister of Finance, Mr. Ong Eng Die, reportedly stated that the government had obtained loans abroad totalling Rp. 1 billion (approximately \$88 million) -- Rp. 400 million (approximately \$35 million) from France, Rp. 300 million (approximately \$26 million) from West Germany and Rp. 200 million (approximately \$17.5 million) from the Netherlands. A subsequent Embassy check with members of other Missions and officials in the Ministry of Finance revealed the status of the credits from these countries to be as follows: 59/

France - France and Indonesia reached an agreement in June 1954 at the conclusion of their trade agreement negotiations which provided for credits totalling 12 million francs (approximately \$35 million) to be used

within one year and repayable over a period of 7 years. The credits were to be used for the purchase in France of capital goods--hydroelectric installations, power and electric equipment, building equipment, ships, mining equipment. As of the end of 1954 no agreement had been reached on the terms for the implementation of the credit and the French Government was becoming impatient and had asked the Indonesian Government to come to some early conclusions or release the credit for use by France in other parts of the world.

West Germany - An agreement with the Bank Verein Westdeutschland, Dusseldorf, simply provided that the Bank would consider requests for credit from Indonesia, and if the project was considered sound and terms of credit could be agreed upon, the Bank would grant the credit. The amount and credit terms were not stated. There had been no specific requests submitted to the Bank for credit as of December 1954.

The Netherlands - The Bank of Indonesia was authorized by the Monetary Council on 9 April 1954 to conclude a credit agreement with the N.V. Export Financiering Mij, the Hague, for approximately 75 million rupiahs (approximately \$6.5 million). According to the Commercial Counselor of the Office of the High Commissioner for the Netherlands none of the credit had been used as of December 1954. He added that the credit is to be used for projects which must have the prior approval of the Netherlands Government and can, in no sense, be dispensed freely by the Indonesians as claimed by the Minister of Finance.

3. Foreign Investment

Failure of the Indonesian Government to provide the necessary guarantees for foreign investment--guarantees against nationalization and double taxation, settlement of land concession rights and assurances that profits can be transferred abroad--has discouraged reinvestment as well as new investment by foreign capital. The withdrawal of Dutch capital, primarily invested in rubber plantations, has been most extensive, but in 1954 British and US interests also

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announced their intentions of liquidating particular holdings. US petroleum interests - Standard Vacuum and Caltex - expect, however, to invest approximately \$140 million in Indonesia over the next four or five years. Monthly transfer of profits is tied to commitments of new investment of \$70-80 million by Stanvac and of \$60 million by Caltex. 60/

On 27 April 1956 the Indonesian press announced Indonesian and Japanese governmental approval for the establishment of a joint Japanese-Indonesian National Reconstruction Bank. The bank will have a capital of 50 million rupiahs (approximately \$4.4 million), 49 percent of which will be provided by a Japanese company and 51 percent by private Indonesian investors. The Japanese investor, Isshiwara Sangyo Company, has reportedly paid its first installment. The bank will not engage in foreign exchange transactions, but it will lend money for the development of Indonesia's petroleum industry, interisland shipping services, and other industries. 61/

In mid-June 1956 a contract to finance machinery for a rice straw paper mill in Central Java under a four-year credit was concluded between the State Industrial Bank and an Italian firm "Cellulose Pordio". The mill, scheduled to open by mid-1958, is to have an annual capacity of 7,500 tons. A second State Industrial Bank project for an asbestos cement factory near Gresik (East Java) is to have

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Italian technical aid and financial aid from New Zealand under the Colombo plan. New Zealand assistance has also been reported for planned tannery and glass factories. The Indonesian foreign credits committee has announced the continued opportunity for capital goods imports under long-term credits from the Netherlands, West Germany, France, Sweden, Italy, Czechoslovakia, the UK and the US. 62/

C. Sino-Soviet Bloc Assistance to Indonesia

To date the Sino-Soviet Bloc has provided Indonesia with known credits totalling approximately \$9.6 million and an estimated \$100,000 in grants--\$50,000 in equipment and \$50,000 in technical advice and travel expenses. The largest credit has been an \$8.0 million credit granted by East Germany in 1955 for the construction of a sugar factory. 63/ The other credit - a \$1.6 million credit payable in 5 years at 4 percent interest - was granted by Czechoslovakia in 1956. 64/ Soviet Bloc grant assistance has included an East German donation of an automatic weaving machine and two knitting machines which had been exhibited at the 1954 Djakarta Trade Fair, installations by Czech technicians of five looms ordered by Indonesia at the same fair, and tours of the USSR by Indonesian delegations of railwaymen, industry, and agricultural officials in 1954. 65/

The Bloc technical aid program in Indonesia has been carried out in the past by the European Satellites, primarily East Germany

and Czechoslovakia. There are indications, however, that the USSR intends to become increasingly active in Indonesia. In April 1956 the Soviet Union made its first concrete proposal to give Indonesia economic aid for development in all fields, including agriculture and industry. 66/ Although the amount and type of aid, whether grant or loan, is not yet clear, it appears that Indonesia is receptive and in principle is prepared to accept the Soviet offer.

Prior to 1956 Bloc assistance had been on a small-scale. In view of the recent announcements of the Soviet aid offer and the conclusion of several agreements for Czech aid, it appears that the Bloc intends to participate in Indonesia's economic development on a large-scale. The possibility of an increased bloc aid program is supported by Prime Minister Ali's policy statement made before Parliament in April 1956 shortly after he took office. The Prime Minister, in expressing the desire to maintain good relations with the US "which is capable and willing to give aid to other countries," added that Indonesia was also "willing to make use of the ability and willingness of Communist countries to give aid." 67/

1. East Germany

The largest Bloc project in Indonesia to date has been that resulting from the East German contract, signed in February 1955,

for the construction of a sugar factory in Jogjakarta. (South Java).
The sugar factory will have a capacity of 2,000 tons of sugar per
24 hours with an additional distillery capacity of 1,500 tons of
spirit daily. 68/ It has been reported that approximately 1,200
hectares of land (about 2,765 acres) will be planted with sugar cane
to supply the mill. The factory is to employ 10,000 workers. 69/
The total cane grinding capacity per 24 hours of Indonesia's sugar
factories is currently 67,527 tons. The Jogjakarta factory will
increase total cane grinding capacity per 24 hours by 3 percent.

East Germany showed an active interest in obtaining
the contract for this project. In September 1954 Rudoff, Deputy
Chief of KONTOR O4 (Food Installations of DIA Invest-Export*) was
assigned to Djakarta as a member of the East German trade mission
because he had some technical knowledge about sugar factories. 70/
During the same period Pech, head of the Indonesian, Turkish, and
North Korean section of VEB INEX* was sent to Indonesia to plan
the establishment of sugar factories. 71/ Although the Indonesian
Minister of Finance announced in November or December 1954 that no
decision had been reached for the construction of the sugar factory

* Dia Invest-Export was established in April 1954 to facilitate the
export of complete industrial installations and is responsible for
contacting foreign firms and negotiating contracts. VEB INEX was
established to carry out the more technical work of contracting
for all equipment for a given plant and to supervise the execution
of contracts.

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(offers had been received from West Germany, the Netherlands, Czechoslovakia and East Germany), information received at this time indicated that VEB IMEX had received the contract through DIA Invest-Export. 72/

In February 1955 a formal contract for the construction of the sugar factory was signed with East Germany. (See attachment for a copy of the contract) The terms of the contract specified that East Germany must deliver the equipment in such a way to enable the raw sugar factory (including power station, molasses-tank, sugar laboratory and transport installation) to be put into operation on 15 August 1956; the white sugar stage on 15 September 1956; the spirit plant on 1 April 1957; and the workshop and foundry on 1 March 1957. 73/

Under the terms of the contract the total costs of the equipment for the factory were listed as 2,819,549 pounds sterling (approximately \$8.0 million). Installation expenses and the travel expenses and salaries of the East German technicians were included in the purchase price of the equipment. Estimates made of the total costs of constructing such a factory have placed the value as high as \$12.0 million.

indicated at the unloading of the first shipment of machinery for the factory that 90 million rupiahs (approximately \$7.8 million using the conversion rate of 1 rupiah/\$.087) had already been

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earmarked for machinery for the factory and that an additional 60 million rupiahs (approximately \$5.0 million) would be needed. 74/

Payment is to be made in six annual installments within the period 1956-1961 and in the following way: 75/

- (a) up to 1 Dec 1956 40 percent of the first annual installment
- on 15 Jan 1957 60 percent of the first annual installment
- (b) on 1 Aug and 30 Sep of 1957, 1958, 1959, 1960, and 1961 50 percent of the annual installment payable at the fixed dates

There is nothing in the terms of the contract to indicate payment will be made by Indonesian deliveries of sugar as has been indicated by some sources. The terms specify that payments made to the special account of the Deutschen Noten Bank to have been established with the Bank of Indonesia can be used by East Germany for the purchase of Indonesian products listed in an attachment to the contract. This list includes products normally exported by Indonesia to the Bloc--the most important of which are rubber and tin.

In June or July 1955 Mr. Susanto and Mr. Supari, agents of "Jajasan Credit Tani" (Peasants Credit Foundation), were sent to East Germany to settle matters pertaining to the purchase of the sugar factory equipment. 76/ In October 1955 the first shipment of machinery for the factory was unloaded at Surabaya. 77/ An early

November report indicated a Polish freighter was loading parts of a sugar factory at the Port of Wismar for export from East Germany to Indonesia. 78/ Sultan Burono indicated that four East German engineers acting as technical advisors were expected to arrive in the middle of October and that a total of 40 technicians would be sent to assist in plant construction. 79/ Other reports have placed the number of East German technicians as high as 60.

Reports have been received which have indicated that work on the sugar factory has bogged down. It was reported in October 1955 that production at the new plant, originally scheduled to begin in August, had been postponed until some time in 1957. 80/ However, in the second general debates in Parliament in April 1956, Prime Minister Ali, in answer to questions on the construction of the sugar mill, replied that work had not stopped. He stated that, in view of the fact that Indonesia and East Germany have no direct communications and because of the large amount of capital needed for the project, progress has been slow. 81/

Sugar production in Indonesia has steadily increased since the war with 1955 production estimated at 850,000 m.t. compared with 718,000 m.t. for 1954 and 619,521 m.t. for 1953. 82/ Domestic consumption requirements have almost equaled annual production, however.

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The following table shows Indonesia's domestic consumption of white

sugar for 1950-1955: 83/

<u>Year</u>	<u>Domestic Production</u>	<u>Domestic Consumption</u>
	<u>Metric Tons</u>	<u>Percent of Production</u>
1950	224,700	84
1951	421,467	98
1952	456,404	99
1953	518,031	80
1954	498,301	69
1955	665,186	78

The construction of this plant falls within the government's plans for agricultural projects, the primary purposes of which are to make Indonesia self-sufficient in food and to increase the exportation of agricultural produce in order to acquire foreign exchange.

East Germany, Rumania and Czechoslovakia have expressed an interest in providing technical assistance for the development of the North Sumatra oilfields. These countries have offered to send experts to exploit the oilfields, to supply petroleum equipment and to train Indonesian personnel. 84/ Development of the North Sumatra oilfields represents a potentially receptive field for Bloc assistance. The oilfields have been exploited only on a limited scale by local groups pending a decision on whether they are to be nationalized or privately operated. Disposition of the oilfields is currently under study by the government. North Sumatra contains rich oil deposits, but any expansion by the Indonesian Government would require foreign capital as well as foreign technicians. The local groups have no

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capital, only limited credit, and are constantly faced with financial difficulties in the operation of the installations. 85/

Indonesia's failure to establish a stable petroleum policy presents a sizable drawback for foreign investors. Under present conditions each foreign firm must make separate arrangements for concessions, taxes and the use of foreign exchange - all of which are subject to change. 86/ The failure of the government to enact a new mining law has created a serious obstacle to foreign petroleum interests in obtaining and renewing concessions for development of the petroleum resources. If Bloc offers meet Indonesia's requirements, it would not seem unlikely for Indonesia to accept some assistance from this quarter. Bloc willingness to train Indonesian personnel would certainly appeal to the government in view of its insistence that Indonesian personnel be employed in technical and administrative positions in the industry.

2. Czechoslovakia

Czech efforts to provide technical assistance for Indonesia's economic development met with very little success in 1955. Only one small-scale project, the construction of a canvas-producing factory, was undertaken with Czech assistance. A January 1955 article in Asoka, in reporting on this project, indicated most of the textile

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machinery had arrived and Czech technicians were assisting in the mounting and operation of the machinery. 87/ An Embassy check-up revealed the press release was exaggerated; the textile machinery, ordered from Czechoslovakia at the 1954 Djakarta Fair, had not arrived nor had construction work begun. Date of arrival of either the textile machinery or the Czech technicians was not known. 88/ Reports that Czechoslovakia was building an electric power plant, a factory for radio receivers, a pharmaceutical plant, and a factory for small and medium-sized agricultural machines have not been confirmed.

In early April 1956, shortly after the new Indonesian Government headed by Prime Minister Ali Sartono took office, two agreements providing for Czech assistance were announced.

An Indonesian press agency announced that the Czech Government had agreed to extend a credit for approximately \$1.6 million to Indonesia, payable in five years at 4 percent interest. The credit will be used by the Indonesian Tire and Rubber Company to equip a tire factory in Djakarta. A contract for this purpose was signed between the Bank of Industry and the Czech firm, Technoexport. 89/

Prague announced the conclusion of a second agreement by Technoexport for the construction of an enamelware factory which will turn out 750 tons of enamel utensils a year. The Czechs are to

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deliver the complete equipment including an electric power station.

Czech technicians will install the equipment and train Indonesian workers in the servicing of the machinery and in production methods. 20/

According to press reports the first part of the enameware factory equipment has already arrived in Indonesia. 21/

Indonesian Economic Ministry sources revealed on 13 April that the Czech Government had submitted a draft credit agreement to the Indonesian Government under which credits would be granted to Indonesia for the establishment of such industries as steel, cement, textiles, glass, paper and pulp and fertiliser. 22/ The Foreign Office has stated this was a revision of the draft on which the countries had failed to agree in July 1955. The Embassy has been informed that the total line of credit is not specified but that subsidiary agreements are to be reached on a project-to-project basis. The terms call for payment in sterling with 10 percent down, 15 percent on the first shipment and the balance in 9 semi-annual installments. The draft envisages the use of Czech technicians whose expenses will be paid in local currency. 23/ The agreement was signed on 16 May and the press reported the first credit under the agreement was the \$1.5 million credit to the Indonesian Tire and Rubber Company. 24/ It is not clear if the enameware factory is included under this credit agreement or if it is a separate deal.

3. Rumania

A Rumanian-Indonesian agreement of August 1954 included a provision for Rumanian assistance in the construction of a cement mill, in drilling oilwells and working mineral deposits. 95/

In October 1955 the head of the Rumanian Trade Office in Djakarta made an offer for the construction of a cement mill on a long-term credit basis. The cement plant would have an annual capacity of 200-300,000 tons. 96/ Rumanian technicians were due to arrive in January 1956 for a two-month survey to select a suitable site for the plant. 97/ Indonesia already has one cement plant in operation and construction work is progressing on the cement plant at Gresik, near Surabaya (East Java) which is being financed by an Export-Import Bank loan. 98/ Anticipated production of the Gresik plant, added to current production, is expected to bring local cement output close to present demands of the domestic market. Dr. Djuanda has stated that the plant at Gresik will save Indonesia approximately \$6 million per year in foreign exchange. Construction of this third plant would make Indonesia self-sufficient in cement and might even supply a surplus for export. It also would have the concomitant result of displacing Bloc exports of cement to Indonesia. Over half of Indonesia's total cement imports in the first half of 1955 were supplied

by the Bloc. Of total Bloc exports of cement to Indonesia in January-June 1955 approximately 70 percent was supplied by Czechoslovakia, 23 percent by Rumania, and the remainder by Poland and Hungary. 99/ Although the Indonesian Government has not announced that Rumania has been awarded the contract for construction of this cement plant, it seems likely that Rumanian assistance will be accepted.

The Rumanians have made a general offer of assistance for the development of the North Sumatra oilfields. Following a survey of the oilfields and the refinery at Pangkalan Brandar, a Rumanian delegation offered to furnish modern drilling equipment for use in the oilfields and to train Indonesian technicians. 100/ To date there have been no subsequent efforts by the Rumanians to push this project, but with disposition of the North Sumatra oilfields under study by the Ali Government the Rumanians will probably make some concrete aid offer.

4. Other Sino-Soviet Bloc Countries

Polish, Hungarian and Communist Chinese economic assistance activities in Indonesia have been limited primarily to general offers of long-term credits to finance Indonesian purchases of capital goods. In June 1955, Communist China offered long-term credits in the form of capital goods for the construction of textile mills, hydro-electric installations and cement mills. 101/ To date no agreements

for the use of such credits have been signed with any of these countries.

The USSR, in April 1956, made its first concrete proposal of economic aid to Indonesia. 102/ Soviet Ambassador Zhukov informed the press on 10 April that he had submitted a concrete economic aid proposal to the Indonesian Government. Zhukov commented that the offer was effective for any field, including agriculture and industry. Dr. Djuanda, Director of the National Planning Bureau, stated he was unable to discuss the Soviet offer at that time but described it as a parallel to the Soviet offers made to India. Governmental decision on acceptance of the Soviet offer has not yet been reached, but it seems extremely unlikely that the Indonesian Government, faced with a sufficiently attractive Soviet economic aid program, would refuse it.

Ambassador Zhukov, in a 2 May press interview, 103/ stated that he had informed the Indonesian Prime Minister and the Foreign Minister that if the Indonesian Government would submit a concrete proposal the USSR was prepared to study it carefully and start negotiations. He listed construction of power stations, fertilizer factories, oil refineries or aluminum and cement plants as suitable projects for cooperation. He added that the USSR was prepared to cooperate with Indonesia in the use of atomic energy for peaceful purposes and to train Indonesian personnel in this field in the USSR. Zhukov further revealed that the USSR was studying the possibility of granting

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scholarships to Indonesian students to take up specialized studies in Russian universities.

These projects which have been listed by Zhukov have been well-chosen by the Soviets. Development of power has been emphasized by the National Planning Bureau in the 5-year development plan. Construction of chemical fertilizer factories has a high priority because of its importance for increasing food production, especially that of rice. Disposition of the North Sumatra oilfields is currently under study by the government and it seems apparent that efforts to develop these oilfields will require some type of foreign assistance.

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TABLE 1

INDONESIAN FOREIGN TRADE 1951-1955

(Values in thousands of dollars)

Year	Total to World	TOTAL TO ECOC		Albania	Belgium	Czechoslovakia	East Germany	Hungary	Poland	Rumania	USSR	China
		Value	% of Total Value									
<u>Exports</u>												
1951	1,291,786	2,416	0.2	N.R.	N.R.	956	N.R.	-	1,355	N.R.	N.R.	105
1952	907,531	9,817	1.1	N.R.	-	3	N.R.	-	9,787	N.R.	N.R.	27
1953	812,673	4,504	0.5	N.R.	N.R.	134	N.R.	107	4,251	N.R.	N.R.	2
1954	856,064	9,082	1.1	N.R.	N.R.	3,758	N.R.	1,633	631	N.R.	N.R.	2,345
1955	931,415	33,898	3.6	N.R.	N.R.	10,648	N.R.	2,718	12,821	1,446	N.R.	6,235
<u>Imports</u>												
1951	873,185	6,834	0.8	N.R.	N.R.	3,069	N.R.	943	320	N.R.	N.R.	2,502
1952	923,953	5,309	0.6	N.R.	N.R.	2,707	5	323	311	N.R.	N.R.	1,943
1953	752,970	6,955	0.9	N.R.	N.R.	2,804	N.R.	1,592	312	N.R.	82	2,129
1954	629,099	15,333	2.4	N.R.	N.R.	7,766	N.R.	2,570	900	N.R.	560	3,237
1955	604,187	40,366	6.6	N.A.	N.A.	344	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

2/ Less than \$500

Source: Department of Commerce, Bureau of Foreign Commerce, U.

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TABLE 2

INDONESIAN TEXTILE IMPORTS

(Quantity in metric tons, except as indicated;
value in thousands of US dollars)

Jan-June 1954

Commodity	<u>Total from World</u>		<u>Total from Sino-Soviet Bloc</u>		Percent of Total Value
	Quantity	Value	Quantity	Value	
Raw silken skeins	47	287	15	90	31.4
Silk yarns for weaving	77	412	18	71	17.2
Cotton yarns for weaving single, unbleached	4,644	5,871	30	36	0.6
Cotton fabrics, standard type (thous. meters)	329,717	74,274	7,274	1,645	2.2
Fabrics of art. text. fibers	2,244	5,033	42	134	2.7
TOTAL		85,877		1,976	2.3

Jan-June 1955

Commodity	<u>Total from World</u>		<u>Total from Sino-Soviet Bloc</u>		Percent of Total Value
	Quantity	Value	Quantity	Value	
Silk yarns for weaving	14	71	10	50	70.4
Cotton yarns for weaving, single unbleached	4,689	5,825	9	13	0.2
Cotton yarns for weaving, twisted, unbleached	1,590	2,747	9	19	0.7
Cotton sewing thread, on reels	756	1,560	146	223	14.3
Yarn md. of art. stable fibers	4,685	5,455	9	10	0.2
Cotton fabrics, standard type, unbleached	3,462	4,199	2,153	2,492	59.3
Cotton fabrics of standard type, other	17,242	33,680	3,880	7,804	23.2
Cotton velvet and plush clothing material	351	1,525	33	102	6.7
Fabrics of art. text. fibers	4,912	9,114	495	1,478	12.9
Tulle, lace, emb. ribbon narrow fabrics of cotton	65	170	5	17	10.0
Text. for indust. use (boltings, silk gauze, filter cloth trans and conveyor belts)	101	262	63	154	58.8
Blankets and coverlets of cotton	574	309	62	52	16.8
Misc. text. manu.	1,565	606	8	10	1.7
TOTAL		65,523		12,124	18.5

Source: Same as for Table 1.

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APPENDIX I

Local representatives for bloc products include:

Czechoslovakia

N.V. Ombilin Trading Co., Gunung Sahard 33

Firma Sjam and Comp, Djl Hajam Wuruk 31

N.V. Pd. Perintis, Djalan Perniagaan 72

N.V. MASS, Djalan Djendral Sudirman

N.V. Aliny, Petjenongan

N.V. Hardjasari, 34 Djalan Assen Baru

N.V. Alpino, Kramat Raja 16

N.V. Indoprom, 21 Djalan Gadjah Mada

East Germany

Ichsan, Ltd, Djalan Orpa 70

Asram Incl. G.V.

Hungary

Firma Autotechnicum Leidsmeier, Djalan Raja
Kramat 74

N.V. Populair, Pasar Baru 93

Rahmay

Rumania

P.D. Horas, Djalan Djokja 12

Sources: State, Djakarta Dsp 190, 22 Sep 1955, C
State, Djakarta Dsp 635, 25 Apr 1955, C

Skoda and Tosa machine tools

Chemapol dyestuffs and
industrial chemicals

Skoda and Slavia engines

Skoda and Motokov Motor
Vehicles

Jama bicycles and motorcycles
Shoe machinery, Brno
firearms

Kovo printing machinery

Zetec tractors

Chemapol Pharmaceutical
Chemicals

Sole agent for sale of
machinery exhibited at
3rd International Trade
Fair

Sole representative for
the IPA auto factory
in East Germany

Csepel Motorcycles

Tungaram light bulbs and
radio tubes

Sole agent for textiles

Sole agent for cement

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APPENDIX II

Sources:

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- 2/ State, Djakarta Dep 478, 9 Feb 56, p.8, U.
- 3/ State, Djakarta T-2345, 11 May 56, C.
- 4/ Op. cit., Country by Commodity Series, Jan - Dec 55.
- 5/ Commerce, Bureau of Foreign Commerce, Country by Commodity Series, Jan-Jun 55, U.
- 6/ Ibid.
- 7/ State, Medan Dep 80, 30 Dec 1955, U.
- 8/ Op. cit., Country by Commodity Series, Jan-Jun 55.
- 9/ FFD Summary #649, Monthly Indonesian Press Survey, 12 Sep 55, OUG.
- 10/ State, Djakarta Dep. 635, 25 Apr 55, C.
- 11/ State, OIR, IR 6865, The Status of the Indonesian Economy, pp. 6-7, 12 May 55, S.
- 12/ FRII, FE #180, 15 Sep 55, FF-6, OUG.
- 13/ State, Djakarta T-2483, 13 Apr 56, C.
- 14/ Op. cit., Djakarta Dep. 635.
- 15/ State, Djakarta T-1015, 27 Oct 55, U.
- 16/ FRII, FE #84, III-1, 30 Apr 56, OUG.
- 17/ State, Djakarta Dep. 199, 27 Sep 55, U.
 Air, Djakarta IR 157-55, 8 Aug 55, U.
- 18/ State, Djakarta, Dep 256, 27 Oct 55, C.
 State, Djakarta, Dep 175, 1 Oct 54, U.
- 19/ State, Djakarta T592, 7 Sep 55, OUG.
 State, Djakarta Dep 389, 8 Jun 56, U.
- 20/ State, Djakarta Dep. 236, 27 Oct 55, C.
- 21/ Ibid.
- 22/ State, Djakarta T-2428, 13 Jun 55, U.
- 23/ State, Djakarta T-2523, 17 Apr 56, OUG.
- 24/ State, Djakarta Dep. 130, 25 Aug 55, U.
- 25/ State, Djakarta T-1009, 27 Oct 55, U.

- 26/ Op. cit., Djakarta Dep. 635.
- 27/ CIA, Info. 4 Jan 55, 24 Jan 55, 8.
- 28/ CG- Info. Nov 54, 16 Feb 55, 8.
- 29/ State, Djakarta Dep. 34, 13 Jul 55, U.
State, Djakarta, T-2799, 7 May 56, U.
- 30/ State, Djakarta Dep. 654, 27 Apr 56, C.
- 31/ State, Djakarta Dep. 190, 22 Sep 55, C.
- 32/ Op. cit., Djakarta Dep. 34.
- 33/ Op. cit., Medan Dep. 80.
- 34/ Op. cit., Medan Dep. 80.
- 35/ State, Djakarta T-2496, 13 Apr 56, S.
- 36/ State, Djakarta Dep. 371, 30 Dec 55, U.
- 37/ FHS, FE #71, III 1-30, 11 Apr 56, OUG.
- 38/ Ibid.
- 39/ State, Djakarta Dep. 478, 9 Feb 56, p.13, U.
- 40/ UN, Economic Survey of Asia and the Far East 1955, Feb 56, P.116, U.
- 41/ FHS, FE #89, III-3, 7 May 56, OUG.
- 42/ State, Djakarta T-2541, 18 Apr 56, S.
- 43/ State, Djakarta T-2845, 11 May 56, C.
- 44/ Op. cit., FHS, FE #89.
- 45/ State, Djakarta Dep. 588, 21 Mar 56, C.
- 46/ Commerce, Foreign Commerce Weekly, Vol. 55, #1, 2 Jan 56.
- 47/ Ibid.
- 48/ FHS, FE #80, III-4, 24 Apr 56, OUG.
- 49/ State, Djakarta, T-2960, 26 May 56, C.
- 50/ State, Djakarta, Dep. 267, 4 Nov 55, U.
- 51/ State, Djakarta, Dep. 81, 21 Aug 54, U. (OUG Section)
- 52/ FOA, TOURPO A-408, 19 Nov 54, U.
- 53/ State, Djakarta T-2415, 9 May 56, S.
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- 55/ State Policy Report, Current Economic Dev., Issue 479, 20 Mar 56, S.

- 56/ Report-Export Bank of Washington, Twentieth Semi-annual Report to Congress for the Period Jan-Jun 1955, p.60, U.
- 57/ Reports to Congress on the Mutual Security Program for the periods Dec 31, 1951; Jan-Jun 52; Jul-Dec 52; Jan-Jun 53; Jul-Dec 53; Jul-Dec 54; Jan-Jun 55.
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- 59/ State, Djakarta Dep. 310, 6 Dec 54, pp.1-3, C.
- 60/ UN, Economic Survey of Asia and the Far East, p.119, Feb 56, U.
- 61/ State, Djakarta T-2663, 28 Apr 56, C.
- 62/ State, Djakarta T-3192, 15 Jun 56, C.
- 63/ Weekly Econ. Dev. Abroad, 11 Feb 55, C.
- 64/ FBIS, FE #67, 5 Apr 56, III-2, CDD.
- 65/ State, OIR, IR-7110, 10 Feb 56, p.6, B.
- 66/ FBIS, FE #72, 11 Apr 56, III-7, CDD.
- 67/ Op. cit., FBIS FE #71.
- 68/ State, Djakarta Dep 265, 3 Nov 55, B.
- 69/ FBIS, FE #29, 20 Jul 54, CDD.
- 70/ CIA, CS Info Sep 54, 5 Jan 55, S.
- 71/ CIA, CSDB Info Sep 54, 7 Apr 55, S.
- 72/ CIA, C Info Nov-Dec 54, 20 Jun 55, B, F-3.
- 73/ Op. cit., Djakarta Dep. 265.
- 74/ OHI, Djakarta, 241-55, 2 Nov 55, C. C-2.
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- 78/ FED Summary 704, Selected Briefs from International Press (83), 6 Jan 56, p.704, C.
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- 80/ State, Djakarta Dep. 256, 27 Oct 55, C.
- 81/ FBIS, FE #79, 23 Apr 56, III-11, CDD.
- 82/ State, Djakarta Dep. 268, 15 Nov 55, U.
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- 86/ Op. cit., OIR, IR 6865, p.10.
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- 90/ FBIS, FE #68, 6 Apr 56, OVO.
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- 93/ State, ~~M~~ Jakarta T-2649, 27 Apr 56, OVO.
- 94/ State, Jakarta T-2894, 17 May 56, OVO.
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- 96/ State, Jakarta T-964, 21 Oct 55, OVO.
- 97/ State, Jakarta T-1204, 18 Nov 55, Weekn 46, C.
- 98/ Commerce, Weekly Econ. Devl. Abroad, p.7, 4 Nov 55, C.
- 99/ Commerce, Country by Commodity Series.
- 100/ Commerce, Wkly Econ Dev Abroad, p.9, 23 Dec 55, C.
- 101/ FBD Summary #649, Monthly Indonesian Press Survey, 12 Sep 55, OVO.
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- 103/ Op. cit., FBIS FE #87.

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Office Memorandum • UNITED STATES GOVERNMENT

TO
THRU
FROM

DATE: 13 July 1956

SUBJECT: Transmittal of ERA Project No. 42.1049, "Soviet Bloc and Western Support for Economic Development in Argentina"

1. Transmitted herewith are three copies of the subject report together with a memorandum by the responsible analyst certifying as to the appropriate classification of the materials contained therein.
2. The purpose of the study is to present the Soviet Bloc and Western assistance to Argentina in the light of the economic development plans under active consideration by the present Government of Argentina.
3. Soviet Bloc economic activities in Argentina, while not significant compared with those of the Free World countries, have increased in tempo since 1953. These overtures have taken the familiar forms of substantial offers to provide capital development credits on easy terms in exchange for agricultural products.
4. The feature of the Argentine situation which commands attention at this juncture is governmental consideration of the recently completed economic development blueprint prepared by Dr. Paul Prebisch, one of Latin America's most competent professional economists. The recommendations of Dr. Prebisch contain some features of interest to private Western investors and their governments and other features which furnish an opportunity for competition between Bloc and Western governments in the furtherance of long-range Argentine economic development.
5. The instant study is considered to represent an excellent research job in that it quite adequately considers pertinent

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materials and analyzes them in a manner consistent with the purpose indicated above.

6. For the present, the study should go to the requestor only. It is being reviewed for downgrading to the straight Secret level with a view to proposing publication as a PR in the near future.

(13 July 1956)

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CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED

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ORR 40.1049B

1999

3880

SOVIET BLOC AND WESTERN SUPPORT FOR
ECONOMIC DEVELOPMENT IN ARGENTINA

(Project # 42.1049

10 July 1956

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SUMMARY AND CONCLUSIONS

Sino-Soviet Bloc economic activities in Argentina, while not significant compared with those of the Free World countries, have increased sharply since 1953. In 1954 the value of Argentine-Soviet Bloc trade was \$173 million or about 8 percent of Argentina's total trade. This represented a 300 percent increase over 1953. Credits, complete installations of industrial plants, machinery, and technicians have been provided by Bloc countries. However, thus far, this type of economic assistance has been on a small scale. Since 1955 Bloc countries (the USSR and Czechoslovakia) have extended a total of \$19 million in credit to Argentina as compared with over \$60 million extended by the Export-Import Bank alone during this period.

The recently intensified Bloc economic activities in Argentina are reflected in offers: to provide capital goods urgently needed for Argentina's economic development program in exchange for agricultural products; to provide technical assistance; to grant long-term, low interest credit for capital goods purchases. It is quite possible, in view of its large-scale foreign capital requirements and its declining foreign exchange position, that Argentina will look with favor on greater Bloc participation in its economic development. This prospect is enhanced by Bloc willingness to purchase large quantities of agricultural and livestock products for which Argentina has experienced marketing difficulties.

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I. Economic Development Plans

Argentina's serious economic situation, a problem of retarded economic growth during the last ten years, may be attributed to the policy of the Peron regime of pushing industrialization at the expense of agricultural production, excessive state intervention in economic affairs, and the bureaucratic system of governmental controls. Restrictions and controls on agriculture resulting in a curtailed production and an increase in prices, together with an absence of technical advances have seriously retarded development of this important sector of the economy. 1/ At the same time the demand for agricultural products for the growing population in Argentina continues to increase. This domestic supply and demand situation has seriously limited Argentina's capacity to export agricultural and livestock products which comprise over 90 percent of Argentina's total exports. Available exportable products are not sufficient to compensate for the rising demand for imports of industrial goods. 2/ Thus imports of urgently needed capital equipment have been curtailed and the development of the industrial sector has been hampered. 3/

Per capita production in Argentina has increased only 3.5 percent over the last decade while the demand, both for domestic consumption and for exports, has increased at a more rapid rate. Domestically this has resulted in a serious inflationary situation and a lack of investment capital. Externally, in spite of governmental efforts to

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arrest the trend, imports exceed exports and increased foreign indebtedness has resulted. 4/

A. Balance of Payments

In 1955 Argentina's balance of payments deficit was an estimated \$186 million and the foreign trade deficit, \$250 million. The difference in the two is accountable in terms of a favorable balance in invisible accounts. Not only has Argentina's indebtedness under bilateral agreements (with Free World countries) increased but payments on relatively short-term installment purchases of capital goods continue to mount. The declining foreign trade position during the last decade has necessitated a concomitant drain on Argentina's gold and foreign exchange reserves. These stood at \$530 million at the end of 1955 as compared with \$1,682 million in 1946. 5/ (See Table I)

This critical external position may be attributed not only to the failure to provide adequate price incentives and to adopt policies to promote an adequate growth of agricultural and livestock production and thereby provide a greater supply of exportable products, but also to the failure to direct industrialization into channels that would strengthen the country's external position by reducing the reliance on such basic imports as iron, steel, petroleum and coal. 6/

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TABLE X 7/

Argentina's Overseas Assets and Obligations At the End
of 1955 As Reported by the Central Bank of Argentina

Assets

Gold		371.5
Dollar Balances		107.5
Sterling balances		6.8
Other Trade Agreement Currencies		<u>50.7</u>
Total Assets		529.7

Obligations

Balances against Argentina under trade agreements with:		
Germany		29.8
UK		53.1
Italy		102.6
France		43.0
Japan		47.2
Others		<u>34.9</u>
Total T.A. indebtedness		310.6

Installment Payment Obligations
(principal plus interest)

Dollar Obligations		316.4
Sterling Obligations		14.3
German Trade Agreement dollars		85.2
Other currencies		<u>65.3</u>
Total installment payment obligations		<u>418.2</u>
Total Obligations		791.8

B. Prebisch Reports

To rehabilitate its economy Argentina must take immediate steps to curb the inflationary trend, improve the deteriorating external position, and launch a program for increased production in the agricultural and industrial sectors of the economy. In view of this, the Provisional Government, in October 1955, appointed Dr. Raul Prebisch, General Secretary for the United Nations Commission

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for Latin America, to the post of economic advisor to the President for a three-month period to study the economy and make recommendations for a development program. 8/ In late 1955 and early 1956 Dr. Prebisch published a series of reports in which he outlined specific proposals for governmental action for the rehabilitation and future development of the national economy.

Dr. Prebisch stated that it is essential that production in general be increased 10 percent within the next year and a further 20 percent within two or three years. 9/ However, in order to achieve this goal the balance of payments situation must be improved by giving immediate attention to increasing agricultural production, re-channeling industrial production, and eliminating the bottlenecks to development caused by inadequate power and transportation facilities. The following are some of the principal recommendations made in the Prebisch reports: 10/

1. The peso should be devalued and a more realistic rate be established as a means of increasing incentives to farmers and exporters of manufactured goods and facilitating the importation of urgently needed capital goods. 11/
2. Large-scale foreign financial assistance should be sought in the form of loans, investments, more favorable credit terms on capital goods purchases, and credits to both the public and private enterprises. 12/

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3. Bilateral trade agreements with European countries should give way to trade on a multilateral basis. 13/
4. The government should gradually reduce its control of the economy except in the petroleum and railroad industries, which should remain nationalized. 14/

In line with the above recommendations the Argentine Government on 27 October 1955, devalued the peso and established an official rate of exchange of 15 pesos to 1 US dollar for all trade transactions except imports of capital goods, luxury imports, and invisible and capital transactions which will move through the free market. 15/ Recent actions, regarding foreign economic assistance indicate that the government is attempting to create a more favorable climate for foreign investment. In addition, an Argentine mission has been sent to Europe to arrange for payment of balances due abroad under existing bilateral agreements, to secure additional credits, and to put trade on a multilateral basis. The mission will probably also attempt to refinance obligations. 16/ A mission to the United States will attempt to arrange large scale loans for economic development. 17/ Although the Provisional Government has announced that it is in favor of more private enterprise, no overall policy in this regard has been enunciated. One exception bearing on this point is the announcement that petroleum

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production and development will remain in the hands of the Government. 18/

Barring any drastic changes in government attitudes, it seems reasonable to assume that Argentina will continue to pursue a policy which will seek greater and more efficient development of agriculture and industry, less governmental control of the economy, and more foreign assistance in the form of credits and investments. The following sections on agriculture and livestock; industry and mining; and electric power and transportation include specific proposals for development contained in the Prebisch reports and the implementations of the proposals by the Argentine Government.

G. Agriculture and Livestock

The Peron Government, in an effort to promote industrialization in Argentina, pursued an economic policy which discouraged development of the agricultural and livestock production. Expansion of industrial production demanded increased imports of capital equipment which had to be met with increased Argentine exports, of which over 90 percent are agriculture and livestock products. During the years 1945-47 the increasing payments for imports were more than offset by the growth of receipts from a large export surplus of foodstuffs sold at comparatively high prices. But the next five years, 1947-52, with the exception of 1950, were ones of recurring deficits in trade, intensified by drought in 1951-52 and declining world prices for agricultural products. An

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excellent crop yield in 1953-54 resulted in a large export surplus in 1953 and a slight surplus in 1954. 19/ However, the effects of restricted agricultural production, rising domestic demand, low prices and the absence of technical advances in agriculture were felt in 1955, when in spite of rigid governmental controls to curtail imports a trade deficit of some \$250 million resulted.

To increase the productivity in agriculture and animal husbandry the government must take steps to insure greater price incentives to the farmer and to promote modernisation and mechanisation of farming methods. In accordance with recommendations made by Dr. Prebisch, the Provisional Government on 27 October 1955, announced the devaluation of the peso and the establishment of a single rate of 18 pesos to 1 US dollar for exports of agricultural products. In addition, the Government established a National Economic Restoration Fund for stimulating technological and economic advances in agriculture and livestock. 20/ The new governmental policy to give greater attention to agriculture and livestock production along with favorable weather conditions during the latter part of 1955 have considerably brightened the prospects for an increase in agricultural production in 1956. 21/

D. Industry and Mining

Although favored over agriculture during the Peron era, Argentina's industrial sector has also suffered inadequate development. Gross domestic

capital formation in Argentina has fallen both in amount and as a percentage of national production and there has been an absence of new capital investment in transportation, power, and most manufacturing industries. 22/

The Prebisch reports stress the need for consolidation of industries already in existence and their gradual expansion by the establishment of new branches. In particular, they emphasize the need to develop the metals subindustries and mechanical industries, the paper and cellulose industries, and the chemical industry. They emphasize the need for Argentina to develop its own heavy industry. 23/ One of the chief obstacles to Argentina's industrial growth, however, has been the lack of necessary capital equipment imports. Raw materials resources such as petroleum, iron and coal have not been exploited sufficiently and large quantities of these materials have to be imported thereby making necessary a corresponding curtailment of needed capital equipment imports. Argentina's import requirements of capital goods for the next 3 years are estimated at some \$1.2 billion. 24/

1. Petroleum

Probably the most important immediate project is the development of domestic petroleum resources. The demand for petroleum has grown with the industrialization and the rapidly increasing population of the country, 25/ with the result that there is an estimated 8.7 million

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ton annual petroleum deficit in Argentina. 26/ Prebisch indicated that domestic petroleum production should be raised from the present production rate of 5.1 million tons annually to a 10 million ton annual rate by 1959. 27/ Imports of petroleum presently comprise about 20 percent of Argentina's total imports. 28/ The principal sources of these imports are the Dutch West Indies, Venezuela, Kuwait, and the USSR. 29/

The Peronist Government closed the door on exclusive foreign concessions in the petroleum industry when it awarded exclusive development rights to Yacimientos Petroliferos Fiscales (YPF), the state owned petroleum enterprise. 30/ However, in accordance with Dr. Prebisch's recommendation that petroleum development be carried out with the aid of foreign financial assistance, the government has announced that foreign companies may contribute to the development through the construction of pipelines, the sale of equipment and materials under deferred payment terms, the drilling of oil wells on a contract basis, and the participation in expansion activities covering any phase of the industry under a mixed foreign-Argentine state owned company formula. 31/ The areas involved in current and future petroleum development plans will probably include the territory of Neuquen, the Patagonia region in southern Argentina, and the Salta, Mendoza and Buenos Aires Provinces. 32/ The government is particularly anxious to begin construction of pipelines in the Salta, ~~and~~ Mendoza and Buenos Aires.

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Provinces. On 15 March 1956, the Minister of Industry announced that IFF was ready to receive bids for the financing of \$250 million worth of pipeline, gas line, and miscellaneous equipment. 12/ He also announced that the call for bids would be made in the Soviet Bloc as well as in the Free World. 14/ The following projects and their estimated costs were outlined: a gas line from Campo Duran to Buenos Aires, \$76 million; an oil pipeline from Campo Duran to San Lorenzo, \$24 million; a pipeline from Mendoza to San Lorenzo, \$19 million; an unidentified project at Campo Duran, \$13 million; increases in the refinery at Lujan de Cuyo and in the Buenos Aires area, \$15 million and \$18 million, respectively; a lubricating oil plant, \$4 million; a distribution plant and equipment, \$5 million; drilling rigs and drilling contracts, \$76 million. It is desired that payment on these credits which would be guaranteed by the Central Bank begin in 1959 and run for 15 years. Bids were requested by 15 May 1956. 15/ The Minister made it clear that control of these development projects would be in the hands of IFF and that no payment in petroleum or in concession rights would be considered. 16/

2. Iron and Steel

The mining industry has been of minor significance in Argentina. Nevertheless, some strides have been made in recent years to develop existing domestic resources, particularly iron. In 1955, the government announced that economic plans for expansion of the

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Lapla iron plant in the Province of Jujuy have been completed. Plans to expand the production at this plant to 165,000 tons a year by 1957 will require an estimated \$15 million in foreign exchange to cover imports of equipment for blast furnaces, a power plant and a charcoal plant. The iron will be converted into steel and processed at a rolling mill at the same location. 27/ A West German firm, Demag, is reported to be supplying the charcoal plant and will be installing a new blast furnace. 28/ Several projects have been planned with the participation of US firms for the extension and development of the iron mines and steel mills at Rosario and San Nicolas in the Provinces of Buenos Aires and Santa Fe. 29/ With the aid of a \$60 million loan by the Export-Import Bank, Argentina plans to construct an integrated steel mill at San Nicolas. The overall cost of the plant, which is designed to produce 588,000 metric tons of steel ingots annually, will be \$258 million. The plant is to include dock and other raw material handling facilities, a by-product coke oven plant, a 1,300 ton blast furnace, open-hearth steel making facilities, a blooming and billet mill, a rail and structural forms mill, and finishing mills for the production of plate, strip, sheet and tinplate. 30/

3. Coal

For some time the government has been working on the development of coal deposits in Argentina, particularly at Rio Turbio

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in the southern Patagonia area. Coal reserves at these mines are estimated to be as high as 370,000,000 tons. However, after 10 years the mines are supplying only 50,000 tons of coal a year. This low production rate has been attributed to bad planning, poor transportation facilities, and technical difficulties. ^{A1/} It is expected that with large-scale investment, including a coal-washing plant which Czechoslovakia has contracted to construct, the mines could produce 1,000,000 tons per year by 1959. ^{A2/}

E. Transportation and Electrical Power

Another obstacle to Argentina's industrial and agricultural development, and probably the one requiring the most immediate action, is the lack of an adequate transportation system and a severe shortage of electrical power. ^{A3/} Improvement in these sectors which now seriously limits economic progress has been slow. Further advances in both of these fields will undoubtedly require large-scale foreign assistance.

In April 1955, the Government inaugurated a 15-year highway development plan which provides for construction of express highways to connect Buenos Aires with Mor Del Plata and Rosario, and 3 branches of the Pan American highway to connect Buenos Aires with neighboring countries (Paraguay, Chile and Bolivia). Although the government intends to carry out construction on these projects without the aid of foreign

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companies, it is estimated that some \$15 million worth of machinery will be required from abroad. ^{44/} In railroad transportation the lack of indigenous production of locomotives and cars is a serious hindrance to Argentina's economic development. ^{45/} In March 1956, the Minister of Transport called for bids for 200 diesel electric locomotives, 600 passenger cars (300 of them diesel), 10,000 freight cars, steam-locomotives parts, steel bridge parts and assorted modernization equipment for ships and road line. The equipment would be purchased on a deferred payment basis with terms up to 10 years. A combine of UK firms has put in a \$42 million 10-year bid for the entire program. ^{46/} In the long-run, plans for expansion of the steel mills at Rosario and San Nicolas which include construction of foundries to produce railroad rolling stock should add considerably to Argentina's railroad development. ^{47/}

There has been very little progress in the last ten years in Argentina's electric power industry. ^{48/} The serious shortage of electric power, estimated to be about 600,000 kilowatts per annum, is one of the more urgent problems facing Argentina. ^{49/} Dr. Prehisch has proposed a program for the development of electric power in which he has outlined the following actions to be taken for immediate and long-term expansion.

1. Measures of immediate effect

- a. To hasten the construction of transmission lines from the new San Nicolas power plant

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- b. To import small power units for rapid installation
- c. To hasten construction of new projects in the interior
- d. To change the organization of the Rosario power plant and connect it to San Nicolas.

2. Measures of subsequent effect

- a. To expand the power plants in Puerto Riasco by the end of 1959
- b. To make radical changes in the corporate structure of power enterprises
- c. To make additional large investments
- d. To construct a new 300,000 kilowatt thermo-electric plant at Dock Sud (Buenos Aires Province)

3. Measures to be effective after 1960

- a. Study of the Salto Grande Project
- b. Study of possible development of power in the Parana basin
- c. Study of possible use of atomic power in the production of electrical energy. 20/

Government policy regarding the entire plan has not been announced. However, in March 1956, the government took over the Rosario plant which had been the property of the firm, Sofina, representing Belgium and Swiss interests. The company's franchise expired

in 1952 and since that date has been operating on a provisional extension of the franchise. 21/ This action was probably taken as a step toward the issuance of new stock by the Government, and the eventual reorganization of the plant in accordance with the Prebisch recommendation. 22/

II. Foreign Economic Assistance and Investments

A. From the Free World

1. Investment

The lack of indigenous capital for investment makes it imperative that Argentina receive financial assistance from abroad for its economic development program. Prior to 1947, foreign investment accounted for the bulk of capital formation. However, the absence of profit remittances during most of the period since 1947 and the rigorous system of governmental control of business enterprise have effectively discouraged private foreign investors. 23/ As a consequence, Argentina has turned extensively to short term credit for financing necessary capital goods imports. 24/ The opening of the free market in foreign exchange for profit remittances and the entry of new capital in October 1955 has been a desirable step toward the creation of a more favorable investment climate. Nevertheless, there are still uncertainties which confront foreign investors. Chief among these uncertainties are the government policies toward labor and inflation. 25/ Although the creation of a free market through which foreign funds may freely enter

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or leave Argentina has removed practically all governmental control, permits for the importation of machinery as well as other goods are still required. A circular issued by the Central Bank in November 1955⁶ stated that it will permit capital investment in the form of imported new machinery (complete new plants or additions to existing plants) if the investments produce goods that now must be imported or that could be exported. ^{55/} These steps, taken by the Provisional Government, indicate that Argentina is making serious attempts to attract foreign investment capital.

The United States and Great Britain have by far the largest share of total foreign investments in Argentina. A Central Bank survey made in late 1953 showed that out of the total foreign investment in Argentina, United States investors accounted for 25 percent and British investors for 20 percent. The remainder included investments from Swiss, Belgian, Italian and French sources. ^{57/} Only a relatively small amount of foreign investment has taken place during 1954 and 1955⁴ insufficient to significantly change the foregoing percentages. ^{58/} It is estimated that only about one-half of total foreign investment represents original investment while the other half represents reinvested profits. ^{59/}

2. Credits

Argentina's overseas obligations on relatively short-term credits for purchases of capital goods are steadily increasing. In the

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past 10 years most of the foreign capital obtained by Argentina has been on a credit rather than on a long-term investment basis. At the beginning of 1955 Argentina's total installment obligations (principal plus interest to be paid until maturity) amounted to \$276.3 million, 48 percent of which was to be paid in US or Canadian dollars. ~~62/~~ By the end of 1955, total installment obligation had grown to \$481.2 million, almost 66 percent of which is to be paid in US or Canadian dollars. ~~61/~~ A large part of these credits will have to be repaid within the next five years. ~~62/~~ In 1956, about \$112.7 million will have to be repaid unless some of the loans are refinanced. ~~63/~~ Principal items purchased on these credits include telephone equipment, locomotive, agricultural equipment, cement manufacturing machinery, mining equipment, oil field equipment, steel mill equipment and tractors. ~~64/~~

Next to the United States, West Germany is Argentina's largest creditor. There were no credits from Sino-Soviet Bloc countries listed as of the beginning of 1955. ~~65/~~

In order to carry out its economic development plans Argentina will find it necessary to secure additional large-scale credits from abroad. There Argentina will try to obtain on more favorable terms. An Argentine mission has been sent to Europe on a preliminary visit to discuss the consolidation of debts with various European countries, the arrangement of deferred payment terms, and the extension of credits

for Argentine purchases of capital goods. A mission has also been sent to the United States to arrange for governmental loans to Argentina. 66/

United States Government credits to Argentina have been restricted to Export-Import Bank credits and to credits under PL 480. There have been no ICA grants or credits to Argentina. As of 30 June 1958, Export-Import Bank loans and authorized credits to Argentina amounted to some \$190.3 million (see Table II).

TABLE II

EXPORT-IMPORT BANK LOANS AND AUTHORIZED CREDITS TO ARGENTINA 67/

(in thousands of \$US)

Obligor	Purpose	Period of Loan	Amount	Balance not Disbursed	Principal Outstanding	Percent
Agencia de Transportes Moore-McCormack S.A.	Harbor Barges	1946-58	210.0		51.2	4
Consortium of Arg. Banks	Dollar Exchange	1950-63	125,000.0		77,175.9	3 1/2
Sociedad Minera Arg. S.A.	Equip. for prod. of tungsten & sulphur	1951-58	5,000.0		3,750.0	4
Sociedad Mixta Siderurgia, Arg.	Construction of Steel Mill	1956-77	60,000.0	60,000.0		5
National Lead Co. S.A.	Mining Equip.	1955-58	72.3	72.3		5
TOTAL			190,282.3	60,072.3	80,977.1	

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An agreement for the \$60 million loan was signed 27 February 1956. The credit will be used to assist in financing United States exports of equipment, materials, and technical services to Argentina for the construction of an integrated steel mill at San Nicolas which will have an overall cost of \$258 million. The Export-Import Bank credit will finance up to 60 percent of purchases of nearly \$100 million to be made in the United States. 62/

In addition to the above the United States Government loaned \$2.3 million to Argentina for economic development under US Public Law 480 which specifies that US agricultural surpluses may be sold to friendly nations for foreign currencies which then may be used for a development loan to the country. * 62/

B. From the Soviet Bloc

It is quite possible, in view of its foreign capital requirements and its declining dollar position, that Argentina will look with favor upon offers of credit and technical assistance from Soviet Bloc countries. This prospect is enhanced by Bloc interest in securing large quantities of Argentina's agricultural and livestock products. In 1954, Bloc countries accounted for about one-third of total Argentine exports

* 1955 was a poor year for summer crops in Argentina and the worst year in recent times for edible oil production. Consequently, Argentina purchased some 20,000 tons of edible oils from the US under PL 480.

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of mutton and lamb as well as significant proportions of its rye, linned oil, quebracho extract, and canned meat exports. TD

Thus far, however, actual Soviet Bloc credits and technical assistance to Argentina have been negligible. Czechoslovakia has been, by far, the most active Bloc country in offering economic assistance, although the USSR has displayed increasing interest. Some interest also has been recently displayed by Poland, Hungary and the GDR. The concern of these satellites, however, seems to be focused primarily on expanding trade rather than on economic assistance in the form of credits or technical services.

1. Technical Assistance

General offers of technical aid in the form of complete installations of industrial plants and machinery as well as technicians have been made by several Bloc countries to Latin America. The most significant being the January 1956 statement made by Soviet Premier Bulganin, in reply to questions submitted to him by VISION* magazine, that the USSR is ready to sell to Latin American countries various types of capital goods and to provide technical assistance in the fields of electric power, construction, transport, and agriculture. TD

To date specific Bloc offers of technical aid to Argentina have been relatively insignificant. Indications are, however, that

* A Spanish language News Magazine published in New York for Latin America

they will increase in 1956. While Czechoslovakia, East Germany, Hungary, Poland, and the USSR have all shown interest in providing technical assistance to Argentina, to date only Czechoslovakia and Hungary have actually sent complete industrial installations and technicians.

In March 1954, two Czech technicians were in Argentina to assist in setting up a small tractor factory near San Nicolas. Construction of the factory, which is a joint project of the Czech Skoda Works and the Argentine state trading organization, IAPI, was to take one year. 72/ Also in the San Nicolas area, Czech technicians have constructed the "world's largest distillery." 73/ Additional Czech technicians were in Argentina in mid-1955 in connection with imports of Czech trucks. 74/ Probably the most important example of Czech technical assistance to Argentina is the contract awarded to the Czech firm, Technoport, in July 1955 for the installation of a coal-washing plant at the Argentine Government-owned coal mines at Rio Turbio in southern Patagonia. The cost of Czech equipment for the plant, which is to have a daily capacity of 4,000 tons, is estimated at nearly \$2.1 million. 75/ Payment terms were stated to be as follows: 20 percent thirty days after signing the contract; 20 percent upon receipt of shipping documents for each partial delivery; 20 percent when the equipment is put into operation; 15 percent on 31 December 1959; 15 percent on

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31 December 1960; and 10 percent on 31 December 1961. Delivery of the equipment is to be completed by 1957. 76/ Credits extended for this project will be financed under the credit provision in the Czech-Argentine trade agreement. As the Czechs did not submit a bid, it is believed that they probably got the contract by bribing Argentine officials. 77/ It is interesting to note that Czech press statements regarding the coal-washing plant refer to Czechoslovakia's success in getting the contract over competition from United States, French and West German enterprises. 78/

One of the most recent developments in Czech economic activities in Argentina is the sale of 60 small Czech transport aircraft to Argentina in February 1956. Total cost of the planes estimated to be about \$1.35 million, is to be financed on a 10-year credit. Four of the planes, accompanied by Czech technical personnel, have already been shipped. The Czechs have also offered jet aircraft under the same terms. 79/ A Czech commission visited Tucuman Province in March 1956 for the object of studying machinery requirements for sugar production and railroad activities but there have been no known offers to date. 80/

Although no contracts have been concluded, the USSR has shown an interest in participating in Argentina's petroleum development program. A Soviet commercial mission is reported to have offered to supply YPF with drilling equipment and other petroleum equipment and

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steel chests for pipeline construction on favorable credit terms. 81/
This offer, however, did not come in the form of a formal written bid.
Bids have been received for financing the \$250 million pipeline program
from British, French, United States, and West German firms. 82/ Announce-
ments, made by the Minister of Industry at the time of the invitation
for bids on the pipeline construction plan, indicate that Argentina
would be willing to accept favorable bids from outside the dollar area,
even from the Soviet Bloc. 83/ Other offers of technical assistances,
include an offer in August 1955 to sell road construction equipment, 84/
entire railway electrification systems, electric locomotives. These
offers also included the services of technicians to aid in setting up
the installations. 85/ In 1956, there have been increasing indications
of a growing Soviet interest in supplying Argentina with needed equipment
and supplies under generous terms. The Soviets have also suggested
that they send engineers to work with Argentine personnel on Soviet
equipment, specifically road-graders, now in Argentina. 86/

The Argentine-Hungarian trade agreement of April 1954
provides for sending Hungarian technicians to aid in the installation
and servicing of Hungarian equipment. 87/ Hungarian activities in
late 1955 and 1956 have included sending technicians to Argentina in
connection with the servicing of Ganz diesel railroad cars, 88/ supplying

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plans and equipment to Argentina for an oxygen factory, 82/ and offering diesel-electric power plants for marine and land transportation and stationary power plant use. 90/

Under the GDR-Argentine trade agreement of September 1954, East Germany was committed to export complete equipment for two large modern dairies. 91/ Evidently these commitments have not been met as there were no reported GDR exports to Argentina in 1954 or the first half of 1955. In 1956, East Germany offered to supply the Argentine sugar industry with all essential equipment it required on a 5-year credit basis and at the same time indicated that the GDR was prepared to offer coal mining, road construction, power station, chemical, and agricultural machinery on long-term credits at low interest rates. 92/

The Polish-Argentine trade agreement of January 1955 provides that Poland facilitate the export of capital goods to Argentina on short-term credit but there has been no evidence of implementation of the arrangement. 93/

2. Arms Aid

To date there have been no Bloc arms shipments to Argentina. Recent Czech and Soviet offers of military aircraft to Argentina have not resulted in any contracts. 94/

3. Credits

Three Soviet Bloc countries, Czechoslovakia, Poland and

the USSR have provided for extension of long-term credits to Argentina under their respective trade agreements. For the most part, these credits have not been utilized.

The extension by the USSR in August 1953, of a \$30 million credit to Argentina for purchases of coal mining equipment, oil drilling equipment, transportation equipment, agricultural equipment, and power plants represents the first significant Soviet Bloc offer of economic assistance to a Free World country. ^{25/} This credit does not seem to have been utilized. (In part this may be due to the fact that an Argentine mission to the USSR in early 1954 found the Soviet equipment offered to be of low quality and obsolescent.) ^{26/} In May 1955 the credit provision was reduced to \$4 million. Soviet offers of railway electrification systems and road construction equipment in August and September 1955 may have been an attempt to get Argentina to utilize some of this credit. In 1956, the USSR has been making a concerted effort to expand its economic relations with Argentina. In April 1956, Soviet trade representatives called on Argentine officials in Buenos Aires, at which time they left new catalogs of Soviet machinery and expressed a desire to supply Argentina with needed equipment under terms of 20 percent down and the balance in five years at 3 percent interest. ^{27/} Also in April, the Soviets visited the administrator of YPF, Argentine State Oilfields Monopoly, to offer Soviet oil drilling

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and other petroleum equipment, including steel sheets adequate to cover 80 percent of the material needed for the construction of YPF's planned pipeline system. The terms offered include credit of 15 to 20 years and 2.5 percent annual interest. The YPF administrator has asked for a written offer from the Soviets. 24/

The Czech-Argentine trade agreement of January 1955 provided for the extension by Czechoslovakia of a \$15 million credit to Argentina for purchases of capital goods. Some \$2.1 million of this credit will be used for purchases of Czech equipment for a coal-washing plant at Rio Turbio in Southern Patagonia. It is not known whether other Czechoslovakian projects in Argentina are being financed under this credit, although it is entirely possible that a recent purchase of Czech transport aircraft on 10-year credit terms may relate to the \$15 million provision.

The Polish-Argentine trade agreement of January 1955, while stipulating that Poland facilitate the export of capital goods to Argentina on credit, did not mention a specific amount. As yet there has been no evidence of any Polish credit to Argentina.

East Germany has offered 5-year credits for purchases of equipment for Argentina's sugar industry and has indicated its willingness to grant long-term credits for other equipment purchases. As yet no

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contracts have resulted from these offers.

III. Argentina's Trade with the Sino-Soviet Bloc

A. Value and Composition of Trade

Argentina is the largest Latin American trader with the Sino-Soviet Bloc. In 1954 Argentina's trade with the Bloc as a whole increased sharply both in amount and as a percentage share of total trade. Only with Bulgaria has trade decreased. (See Table I) Although total trade with the Bloc in 1954--about \$173 million--represented less than 8 percent of Argentina's total trade, it was 4 times the value of Argentina-Bloc trade in 1953 and over twice the value of trade in 1950, a postwar peak year. Preliminary information on Argentine-Sino-Soviet Bloc trade in the first half of the year indicates that the level of trade in 1955 was as high, or higher, than the 1954 level.

Argentine exports to the Bloc in 1954 were in excess of imports. Exports amounted to about \$90 million while imports were valued at approximately \$83 million. During the first six months of 1955, however, the reverse was true. Imports were reported to be \$55.4 million, 58 percent higher than imports in the same period in 1954, while exports were reported at \$33.5 million, only about 58 percent of exports in the same period in 1954. Indications are that this trend probably leveled off somewhat in the last half of the year.

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The large increase in Argentina's commerce with the Bloc in 1954 and 1955 is chiefly a result of a considerable increase in trade with the USSR and Poland. Trade with these two countries in 1954--the highest ever recorded--accounted for over two-thirds of Argentina's total trade with the Bloc. Trade with Czechoslovakia, Hungary, Rumania, and China also increased over 1952 and 1953 levels but did not reach the level of previous peak years. Trade with Albania, Bulgaria and the GDR was negligible.

Following the conclusion of a large trade agreement in August 1953, total trade between Argentina and the USSR increased from a negligible amount in 1951 and 1952 to some \$11 million in 1953* and \$73 million in 1954. Imports in 1954 totalled about \$36.7 million and exports were about \$36.4 million. Preliminary statistics indicate that in the first half of 1955 Argentine-USSR trade amounted to only \$31 million as compared to almost \$54 million in the first six months of 1954. This decline in total trade was the result of a sharp decline in Argentine exports during the period. Imports in the first half of 1955 were valued at \$20.5 million--a considerable increase over the \$8.8 million recorded in the first half of 1954.

Argentina's trade with Poland, second largest Bloc trading partner, reached a level of almost \$43 million in 1954 as compared with

* This figure represents Argentine exports only. USSR exports under the trade agreement did not begin until January 1954. 99/

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slightly more than \$13 million in 1953. Imports in 1954 were \$21.6 million and exports were about \$21 million. During the first half of 1955, Polish-Argentine trade continued its upward trend, amounting to \$32.2 million as compared with \$28.6 million in the first half of 1954. As was the case in Argentine-USSR trade in 1955, imports from Poland, \$14.8 million, increased over imports in the same period in 1954, while exports, \$17.4 million, showed a declining trend.

Trade with Czechoslovakia, Hungary, Rumania and China also showed a considerable increase in 1954 and 1955.

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TABLE III 1969/

Argentina's Forestry Trade By Value For 1947 - First Half of 1955
(In thousands of US dollars)

Year	Total to World	Total to Bloc	% of Total	Algeria	Bulgaria	Czech	DDR	Germany	Poland	Romania	Soviet	China
1947	1,639,363	23,669	1.4	1	352	1874	1402	2402	1872	1248	9764	897
1948	1,653,342	60,489	3.6	6	35	19066	292	292	9361	12070	1211	594
1949	1,337,488	35,477	2.6	11	3447	16012	2675	2675	3765	5375	2125	59
1950	1,430,320	89,747	6.2	5	961	18044	19052	6634	9717	13009	215	811
1951	1,152,252	24,497	2.1	1	274	11869	6634	1330	8591	5124	21	36
1952	709,588	12,915	1.8	1	46	5124	1330	8591	8591	872	8	36
1953	1,217,799	24,358	2.0	1	46	631	2374	2374	8317	1045	6	27
1954	1,079,474	90,435	8.4	1	46	11579	2374	2374	21223	6597	1136	1
1st-6 mos 1955		33,504				1502	198	694	17125	2308	2005	6210

Specialize Imports

1947	1,207,726	15,572	1.2		15	1166	1402	2402	1872	1248	9764	897
1948	1,523,393	13,483	0.9		15	1095	292	292	9361	12070	1211	594
1949	1,234,896	21,902	1.8		102	11721	2675	2675	3765	5375	2125	59
1950	1,083,301	32,900	3.0		770	11869	6634	1330	8591	872	8	36
1951	1,250,773	36,522	2.9			5124	1330	8591	8591	872	8	36
1952	1,277,257	17,114	1.3			3773	1197	1197	1885	1907	9	34
1953	861,596	15,283	1.7			1411	5751	5751	1885	2900	9	34
1954	1,108,111	82,604	7.4			11093	6003	6003	21521	4495	3685	24
1st-6 mos 1955		53,106				9727	6254	6254	11241	1049	2004	1

a) Less than \$500

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1. Argentine Exports

Argentina's exports to the Sino-Soviet Bloc in 1954 and 1955 were composed entirely of agricultural and livestock products. Hides, grains, and meats, comprising together over 70 percent of Argentina's exports to the Bloc, amounted to \$23.7 million, \$20.4 million and \$20.2 million respectively. Other exports, in quantitative order, were quebracho extract, linseed oil and other vegetable oils, wool and butter.

In 1954, Argentina exported to the USSR \$18.5 million worth of meat, \$7.2 million worth of hides, \$6.5 million worth of linseed oil, and about \$4 million worth of butter and quebracho extract. All exports except butter were specified in the August 1953 trade agreement. Statistics for the first half of 1955 reveal that, in addition to exporting hides, meats and linseed oil, Argentina exported some \$2.2 million worth of wool to the USSR in 1955. No butter or quebracho extract exports were reported during the period.

Poland imported \$9.6 million worth of grains (wheat and rye); \$5.8 million worth of hides; \$3.5 million worth of wool; and small amounts of meat and quebracho extract from Argentina in 1954.

Czechoslovakia, the third largest Bloc trader with Argentina, imported grains (wheat and corn), wool, hides, meat and quebracho extract valued

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at \$5.3 million, \$2.4 million, \$1.7 million, \$1.5 million and \$0.5 million respectively. Hungary and Rumania imported chiefly hides, grains and quebracho extract and China imported chiefly quebracho extract.

2. Argentine Imports

Argentina's major imports from the Sino-Soviet Bloc were crude materials, minerals and manufactured goods, such as cement and iron and steel products. Imports of these commodities in 1954 accounted for over 76 percent of total imports from the Bloc while imports of machinery and transportation equipment accounted for only 19 percent of the total. Chemicals and miscellaneous products made up the remainder. Principal imports in 1954, by value, were iron and steel products, \$23.2 million; coal, \$13 million; cement, \$9.6 million; wood, \$9.7 million; petroleum products, \$7.9 million; tractors, \$6.5 million and railroad equipment, \$6 million.

Imports from the USSR consisted chiefly of iron and steel products worth \$22.5 million, petroleum products worth \$7.9 million, and railroad equipment (excluding rolling stock) worth \$3.7 million. Small amounts of machinery, including \$18,000 worth of tractors and \$16,000 worth of mining machinery, were also imported. Over 90 percent of Argentina's imports from Poland in 1954 consisted of coal

and cement. Coal imports were valued at \$11.4 million and cement imports at \$3.2 million. Czechoslovakia and Hungary were the largest exporters of machinery and transportation equipment to Argentina in 1954. Czechoslovakia exported some \$6.4 million worth of tractors, and Hungary exported \$4.8 million worth of railroad coaches and machinery. Imports from Rumania consisted entirely of lumber, which amounted to \$6.5 million. There were no imports from China reported.

Available data reveals that in 1955, the USSR increased exports of railroad equipment, including locomotives, and also exported some \$156,000 worth of mining machinery. Czechoslovakia increased iron and steel exports from a negligible amount in 1954 to almost \$5.4 million in the first six months of 1955.

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Table IV (Cont.)

Principal Commodities in Argentina's Trade with the Six-Country Bloc in 1954
(in thousands of US dollars)

	Great Britain	France	Germany	Italy	Japan	U.S.S.R.	China
<u>Argentine Exports</u>							
Wool	2,521		16	68	721	18,539	893
Grain	5,317	3,853		9,697		3,772	
Meats						7,253	
Butter						6,489	
Hides and skins	1,485	3,673	9	5,764	5,159		
Wool	2,431			3,252		216	
Mineral & other oils							
Phenols extract	463	959		1,866	157		5,317
<u>Argentine Imports</u>							
Iron & steel products (incl. rails)	6			13,363		1,601	
Grain						22,438	
Wool	1,414			8,161		10,250	
Textiles & petroleum products	1,981			1,227			
Transport	6,455				6,496		
Machinery & electrical equipment						7,948	
Mining machinery						18	
Agricultural machinery parts						3,705	
Other machinery & parts	869	2,883				15	
	273	2,517				0	

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B. Bloc Trade Delinquencies

Argentina's postwar trade has been based almost entirely on bilateral agreements and in recent years the trend has been toward increasing indebtedness under these agreements with many countries of the Free World. This trend has not been in evidence in Argentina's bilateral arrangements with the Sino-Soviet Bloc countries. For the most part, Bloc exports to Argentina have failed to keep pace with Argentine exports to the Bloc. The Central Bank of Argentina reports that, at the end of 1954, total Bloc indebtedness to Argentina under bilateral agreements was \$42.8 million. This is well above the \$25 million swing credit permitted in the agreements. The breakdown of this debt was as follows: USSR, - \$13.6 million; Hungary, - \$12.4 million; Czechoslovakia, - \$11.6 million; Poland, - \$5.6 million; Rumanian, - \$4 million. ^{102/} the USSR debt was reduced to \$6 million by the end of 1955. ^{103/} As the imbalance in 1954 trade between Argentina and the Bloc amounted to only some \$7.8 million, a major part of this indebtedness was accumulated prior to 1954.

USSR deliveries fell far short of meeting commitments under the trade agreement at the end of the first agreement year (August 1954). Exports to Argentina during the period, August 1953 to August 1954, amounted to only \$13.4 million of the \$60 million target while Argentina

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deliveries by August 1954 amounted to some \$46.2 million. * During the remaining five months of 1954, the USSR stepped up its exports and, by the end of the year, a total of \$36.7 million worth of Soviet goods had been delivered to Argentina--still well below the \$60 million target. Soviet deliveries of crude petroleum in 1954 were far short of commitments, as were deliveries of coal, sheet iron, pipe, transportation equipment and petroleum and mining equipment. At the same time, Soviet deliveries of refined petroleum products were greatly in excess of commitments, and deliveries of rails approximated the established quota. Implementation of the protocol for trade in 1955 is not known, however, statistics for the first half of the year indicate that the Soviets again fell short of their commitments to export crude petroleum, equipment and iron and steel.

Preliminary statistics for the first half of the year indicate that Czechoslovakia and Argentina probably did not meet their export commitments in 1955. Under the January 1955 agreement and a subsidiary barter agreement the Czechs were to export to Argentina some \$42 million worth of iron and steel products, machinery and wood. ^{104/} Although far exceeding Argentine exports during the period, Czech exports through June 1955, amounted to only \$9.9 million of the \$42 million provision. One of the major delinquencies was in deliveries of iron and steel products. Only \$3 million of the committed \$14 million worth of these

* USSR deliveries under the agreement did not begin until January 54, but Argentina exported some \$11.3 million worth of products in the last months of 1953.

products were exported by Czechoslovakia during the first half of the year. Exports from Argentina were also lagging behind the established quotas. Of a total of \$97 million worth of products which Argentina was to ship to Czechoslovakia during the year, 1955/ only some \$1.5 million worth of grains, meats and hides had been delivered by the end of June 1955. In addition to exports under the trade arrangements, Czechoslovakia is committed to provide up to \$15 million in credit for capital goods purchases. There have been reports of definite utilization of about \$2.1 million of this credit for equipment for a coal-washing plant in Argentina.

Argentine-Polish export quotas set by a January 1955 agreement were probably fully implemented by the end of the year. Trade between these two countries in 1954 was almost in balance. Although the Central Bank reported that Poland was indebted to Argentina by some \$5.6 million at the end of 1954, most of the debt was incurred in previous years. A provision in the January 1955 agreement that Poland facilitate the export of capital goods to Argentina on an installment payment basis has apparently not ~~been~~ been implemented.

At the end of 1954, Hungary had a large debt to Argentina amounting to \$12.4 million. Some effort was made to reduce the debt in a barter agreement signed in April 1954, which stipulated that Hungary export \$4.75 million worth of goods in return for Argentine exports valued at \$3.50 million. The imbalance (\$1.25 million) was

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to be used to reduce the debt. Not only have the Hungarians failed to fulfill their trade commitments to Argentina, but some of their deliveries have been found to be defective. It has been reported that 26 Hungarian railway cars delivered to Argentina by the Gans firm were defective and of poor construction. 106/

Rumania is the only Bloc country, which, at the end of 1954, had a slight export surplus in its trade with Argentina. Rumanian exports consisted entirely of wood products. Indications are that in 1955 Rumania again had an export surplus.

As there was no formal trade arrangement between the GDR and Argentina until September 1954, Central Bank figures did not show the status of East Germany's trade with Argentina. By June 1955, two months before the expiration of the trade agreement, no trade had been reported between these two countries.

IV. Soviet Bloc Trade Offensive in Argentina

Sino-Soviet Bloc overtures to Argentina have been focused primarily on expanding trade. Not only are the Bloc countries willing to take agricultural and livestock commodities, quebracho extract 107/, wool 108/, linseed oil, cheese, butter and hides 109/ for which Argentina has had minor marketing difficulties, but they are willing to export to Argentina capital goods to aid in Argentina's economic development.

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Since November 1954, trade delegations and missions from Communist China, the GDR, Bulgaria, Czechoslovakia, Poland and the USSR have visited Argentina to discuss the expansion of trade. In May 1955 the USSR inaugurated an elaborate industrial exhibit in Buenos Aires in an attempt to interest the Argentines in Soviet equipment. Recent Bloc trade offers to Argentina have been directed to provincial governments and private enterprises as well as to central government organizations. 110/ This is in keeping with the Provisional Government's announcements regarding the decentralization of foreign trade and the liquidation of the state trading organization, IAPI. 111/

A. Trade Agreements and Arrangements

In 1955, Argentina had 6 trade agreements with Soviet Bloc countries--Czechoslovakia, GDR, Hungary, Poland, Rumania and the USSR--envisaging a total trade turnover of over \$263 million. (See Table Y)

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The largest and most significant of these agreements was signed on 5 August 1953 by the USSR and Argentina. The agreement, the first ever negotiated between the USSR and a Latin American country, provided for an annual trade turnover of \$150 million—\$60 million each way, a \$30 million credit to be extended to Argentina for purchases of Soviet capital equipment, and Soviet technicians to install and service imports of Soviet equipment. 112/ The trade targets set by this agreement more than doubled the amount of the entire Latin American area's trade with the Bloc. The agreement was extended in August 1954 and in May 1955 was revised downward in a protocol to the agreement. The protocol set a more realistic trade target of \$100 million for the calendar year 1955 and reduced the unutilized \$30 million credit provision in the 1953 agreement to \$4 million. Significant changes in Soviet export quotas as established by the May protocol include a considerable increase in exports of iron and steel products, reduction in the quota for some petroleum equipment, deletion of coal from the list, and the addition of special steels, aluminum, cellulose and pine wood.

A 3-year Czech-Argentine trade agreement signed in January 1955, is the second largest trade agreement between Argentina and a Soviet Bloc country. Czechoslovakia and Argentina have traditionally traded under bilateral trading arrangements. However, the 1955-58

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agreement negotiated after the expiration of a 1952 agreement in December 1954, set a total trade target more than double previous trade. The new agreement also provided for a Czech credit of \$15 million to Argentina for purchases of capital goods. At the same time, a subsidiary barter agreement was signed under which Czechoslovakia agreed to export an additional \$10 million worth of goods to Argentina in return for \$5 million worth of Argentine products. The difference was to be used to reduce Czech indebtedness to Argentina which was reported to be \$11.6 million at the end of 1954.

A protocol to the Polish-Argentine trade agreement of October 1952, signed in January 1955, envisaged total trade of \$49.4 million--\$24.7 million each way--in 1955. This represented a slight increase over the \$40 million target set for 1954. This agreement, like those negotiated with the USSR and Czechoslovakia, made provision for Argentine imports of capital goods on an installment payment basis.

Hungary and Argentina signed a new three year trade agreement in August 1953 to replace the previous agreement of July 1948 which expired in December 1952. This agreement set a \$30 million trade turnover target apparently for the first year. Half of Hungary's exports under this agreement were to reduce the Hungarian debt to Argentina which stood at \$12.4 million at the end of 1954. On 22 April

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1954 a new trade target was set, by a protocol to the agreement, at the greatly reduced level of \$6.25 million--Argentine exports, \$3.5 million and Hungarian exports, \$4.75 million. The imbalance was to be used to reduce the Hungarian debt. Under this agreement Argentina agreed to admit Hungarian technicians to service and install Hungarian machinery. Then in mid-1955 another protocol was signed which established the level for Argentine exports at \$4.5 million and Hungarian exports at \$6.5 million.

After two years, during which time there was no formal trade agreement, Rumania and Argentina, in May 1954, signed a new trade agreement. No trade target is available for this agreement.

An East German-Argentine compensation agreement, signed in July 1954, for the year 1955, between IAPI and the GDR is the first agreement ever negotiated between these two countries. Provision was made for a total annual exchange of \$41.2 million.

There has been no trade agreement between Argentina and Bulgaria since 1950 but a Bulgarian commercial mission now in Argentina may be attempting to negotiate a new agreement. 113/ Argentina has never had formal trade agreements with either Albania or Communist China. Trade with these countries has been conducted on an ad hoc basis. As a result of exchange visits by Argentine and Communist Chinese delegations

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in late 1954 and early 1955, these countries agreed informally to increase trade. 11A Trade statistics, however, do not indicate implementation of this informal agreement.

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TABLE V
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LATEST TRADE AGREEMENTS AND ARRANGEMENTS BETWEEN ARGENTINA AND THE COUNTRIES NAMED

COUNTRY	DURATION OF AGREEMENT	VALUE (in million US \$)	BASIC REPORTS		ARGENTINE REPORTS	
			COMMODITIES	VALUE	COMMODITIES	VALUE
USSR	Jan - Dec 1955	100.0	50	50	Crude oil, gas oil, iron & steel prod., rails, cellulose, paper, special steels, electrical goods. /116	Button and other meat, laminated oil, hides, quebracho, extract, wool. /117
Czechoslovakia	Feb 55 - Feb 1958 (value for first year)	64.0	32.0	32.0	Iron and steel prod., machinery spare parts, wool, rails and pipes. /117	Grains, meat, hides, and wool.
Poland	Jan - Dec 1955	49.4	24.7	24.7	Machinery, coal, glass, iron and steel, electrical, accessories for pipes. /118	Quinine, hides, quebracho, extract, wool, laminated oil. /118
Hungary /119	Comparative Agreement Signed mid-1955 (probably for one year)	11.0	6.5	4.5	Probably iron and steel, machinery parts, wood, rails and pipes. /120	Grains, laminated oil, hides. /120
DRR	Jan - Dec 1955	41.2	20.6	20.6	Dairy equip., elec. equipment, radio and tele-equip., chemicals. /121	Grains, hides, beef, wool. /122
Romania	Signed May 54 (20 targets)	---	---	---	Ferrous /123	Hides and wool.
TOTALS		262.85	132.05	130.80		

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B. Trade Fairs

The Soviet exhibit at the Industrial Fair held in Buenos Aires in May 1955 was the first of its kind in Latin America and attracted capacity crowds. 124/ The value of the exhibit, which featured tractors, road machinery and mining equipment, was \$2.5 million. 125/ At the close of the exhibit in July, some \$1.1 million dollars worth of Soviet machinery, trucks, and oil-drilling equipment were sold from the display to the Argentine army and YPF. The remainder of the goods exhibited were reported to have been sent back to the USSR. 126/

C. CAEA

The Argentine Commission for the Promotion of Trade, organized by delegates to the Moscow Economic Conference in May 1953, has been active in efforts to increase Argentine-Bloc trade, particularly Communist China. This organization is reported to have been working with the Soviet Embassy in Buenos Aires to promote trade between Argentina and Communist China. 127/ Through these efforts an Argentine delegation was sent to China in mid-1954 and a Chinese delegation visited Argentina in early 1955. 128/

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