

*For Director's office*  
*Cabinet presentation*  
*by the Director*

Communist Economic Penetration of West

- I. New Soviet Policy Tool
  - A. Both by word and by deed USSR has forced attention of West in recent months to increasing Soviet competition in field of international commerce.
    1. Khrushchev's words; arena competition moved from armaments to trade.
    2. Soviet trade with underdeveloped countries of Free World has increased by over 500 percent since 1954; total Soviet trade with West has grown by over 100 percent over same period.
  - B. Soviet foreign economic program is part of "policy of peaceful *Competition* " ~~coexistence.~~
  - C. May be interested to learn of our bi-weekly intelligence reporting on Soviet economic activities in Free World. Since February 1956, working group of representatives from State, CIA, ICA, and the Services report in detail every two weeks, and in analytic summary every 6 months. Copies of these bi-weekly and semi-annual publications.

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**II. Soviet Capabilities for Trade and Aid**

- A. New policy tool of USSR potent one; Soviet capabilities for extending trade and aid formidable.
- B. Total output (GNP) of USSR now greater than that of UK, France and West Germany combined. Second only to US.
- C. However, USSR not yet a "trading nation" in Western sense. Present level of trade still small in relation to total output, although growing.
- D. USSR has extended credit and grant assistance
  - 1. Soviet aid program including that to the European Satellites has represented small burden to USSR. Doubling of present level of credits and grants would be within capabilities.

**III. Bloc Economic Relations Free World**

- A. Very sharp expansion recent years
  - 1. Since 1954, \$2.2 billion credits and grants extended by all Bloc countries (Briefing Aid)
    - a. About \$1.7 billion economic assistance, \$500 million military
    - b. Under these credits, drawings amount about \$700 million

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- (1) Represent deliveries complete plants, industrial equipment, such as
  - (a) Six bridges to Egypt
  - (b) Equipment steel mill India
  - (c) Oil refinery, Syria
  - (d) Flour mill, Afghanistan
- (2) Military hardware such as
  - (a) Fighter planes, Indonesia
  - (b) Tanks, self-propelled artillery, Syria, Egypt
  - (c) Submarines, small naval vessels, Egypt
- (3) Some commodities
  - (a) Wheat, cotton, oil, Yugoslavia
  - (b) Rice to Indonesia (from China) - during recent rebellion
- (4) Small amount convertible currency
  - (a) \$30 million to Yugoslavia from USSR - 1956
  - (b) China grant Egypt early 1957, \$5 million in Swiss francs

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2. 1957, nearly 2,500 Bloc technicians working Free World - half USSR - half Satellites (Briefing Aid)
3. Bloc sent trade missions all parts world - signed trade agreements Free World countries - more than 150 now in force

B. Soviet aid principally to highly susceptible countries

1. Result - 6 countries received over 90 percent of credits - Yugoslavia, Egypt, Syria, Afghanistan, India, Indonesia
  - a. Soviet recently postponed for 5 years implementation of substantial credits Yugoslavia. Even writing off these credits altogether, Yugoslavia remains major recipient Bloc credits - about \$220 million
  2. Trade increasing more rapidly these countries than others
  - ~~3. Susceptibility matter of
    - a. Foreign policy of non-commitment, neutralism
    - b. Ambitious economic development plans
    - c. Difficulty marketing important export products
    - d. Local differences with neighboring countries~~
3. Soviets exploit particular problems of the moment
  - a. India - exploited ambitious development program - intense neutralist sentiment
  - b. Egypt - cotton surplus problem, desire for arms

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C. While devoting major attention most susceptible countries,

Soviets not neglected others; for example,

1. Many Latin American countries have serious economic

problems - industrial development aspirations, marketing difficulties

a. Brazil accumulating large coffee surpluses

b. Chile concerned falling copper prices

c. Uruguay and Argentina have turned to USSR for large purchases oil - lacked foreign exchange to buy from Free World - Brazil seriously negotiating for Soviet oil

d. Receptivity to Bloc offers has increased as economic problems have become more acute

2. Western Defense Pact Members

a. Many approached by USSR with offers that would alleviate economic pressures

(1) Iceland, Turkey, Iran and Pakistan major countries concerned

(2) All these have ambitious development programs, requiring imports of capital goods, budgetary difficulties, inflation, balance of payments problems

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- b. Substantial minorities advocate acceptance Soviet offers expand economic relations
- 3. Attempts to Expand Trade with Western Europe
  - a. To achieve desired rates of growth, imports of capital goods necessary
  - b. Recent large orders placed West Germany, France - industrial equipment. Feelers on \$350 million oil pipe line *to Baltic.*
  - c. Soviet exports aluminum, tin expanded recently - probably represent need to earn necessary additional foreign exchange to pay for machinery imports
- D. In summary, Soviet have already assumed important role in many under developed countries
  - 1. Expansion into other countries largely matter of receptivity
  - 2. Because of economic problems, growing strength neutralism, many other countries becoming increasingly susceptible greater economic relations Bloc
  - 3. Commerce with industrialized countries likely to expand

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