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Communist Economic Penetration

I. New Soviet Policy Tool

1. Peaceful competition, with emphasis on trade and development aid to underdeveloped countries part of more subtle Khrushchev policies.

2. Goals of international communism remain unchanged. No slackening of subversive activity or military research and development on advanced weapons systems. Soviet propaganda, however, pictures U.S. as wanting war, USSR as wanting peace. Khrushchev's remark, "to the slogan which says, 'let us arm' we reply with the slogan 'let us trade!'"

3. Increases in trade spectacular. Since 1954, Soviet trade with underdeveloped areas up 500 per cent; total Soviet trade with the West up over 100 per cent.

II. Soviet Capabilities for Trade and Aid Formidable

1. Total output of USSR (measured in GNP) now greater than that of U.K., France and West Germany combined. Second only to U.S.

2. However, USSR not a "trading nation" in Western sense of words. Present level of trade small in relation to total output, although growing.

3. Total exports of USSR in 1957 about \$4 billions, or 2½% of GNP. Compares with \$18 billion in U.S., or about 4½% of GNP.

4. Most USSR trade still within the Bloc; about 25% is with Free World. Further, most USSR trade with Free World is

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with developed countries, particularly Western Europe.

III. Aid Programs

1. Indian steel mill plant at Bhilai, under agreement of February 1955, was first major offer of technical and economic aid made by Soviets to any Free World country.

2. All Bloc countries have extended somewhat over \$2 billions in credits to underdeveloped countries. USSR alone has extended about \$1.4 billion. Limitation so far has been on willingness of Free World nations to accept offers.

3. For example, Bloc aid offers made to Turkey; Iran far in excess of what has been accepted. In Africa, offers to the Sudan, Morocco, Tunisia and Libya have been largelyⁿ accepted to date, despite internal pressure for economic development and a growing need for foreign assistance to carry out such programs. Only 16 Free World countries have accepted Bloc credits; 95% has gone to 9 countries.

4. Small burden on USSR. A small fraction of one per cent of GNP. Motivation of USSR primarily political, not economic. However, Soviets do receive back commodities they can use -- primarily agricultural foodstuffs and raw materials.

5. "Investment in disorder" in Middle East -- Egypt, Syria, Yemen. Soviets quick to exploit particular programs of the moment -- as in Indonesia.

IV. Characteristics of Bloc Programs

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A. Usually prescribed on an integrated basis:

1. Line of credit
2. Technical assistance and training
3. Increased trade opportunities.

Has great appeal, particularly if underdeveloped country is having difficulty in marketing its exportable products at adequate prices.

In contrast, US program more isolated. In particular, trade usually a matter outside scope of responsibilities of mutual security officers.

B. Almost entirely a credit program

1. Interest rates 2 $\frac{1}{2}$ %.
2. Repayment usually begins after project is in operation. Output of plant helps to pay for loan.
3. Amortization period 12 years.

US interest rates higher. However, Development Loan Fund repayment in 40 years, 30 years for Ex-Im. Bank, much longer terms than USGR.

C. Generally covers only Foreign Exchange Costs.

D. Usually related to Industrial Development Sugar Mills, cement plants, etc. Not for sanitation, sewage, housing, etc.

E. Independent of Military Facts.

No free world underdeveloped country receiving bloc military or economic assistance is a member of a bloc military alliance. This practice disarms many.

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V. Invisible Strings

A. Urging of underdeveloped countries seeking aid to nationalize their industries at Afro-Asian conference in Cairo last December.

B. Cancellation of Yugoslav credits more recently.

C. In credit package, repayment terms very vague -- probably intentionally. Allows for negotiation based on individual nation's course of action.

VI. Future Prospects

Trade and aid offensive is not a flash in the pan. Probably Soviets will increase their efforts, not diminish them. Peaceful coexistence more than a tactical maneuver. Trade and development program a long-term battleground area in itself.

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