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SINO-SOVIET BLOC ECONOMIC PENETRATION AND COUNTERMEASURES THERETO

Problem

To devise ways and means for the US, unilaterally, and/or in collaboration with other Free World countries, to counter Sino-Soviet Bloc economic activities in the underdeveloped areas of the Free World.

Background

Since the death of Stalin, and especially during the past year, the Sino-Soviet Bloc has greatly accelerated its economic offensive in countries politically susceptible to such influences - principally in South and Southeast Asia, the Middle East, and more recently in Africa and Latin America. The Soviets apparently directed their initial emphasis toward those countries where it would have the most immediate and useful political effect: Yugoslavia, India, Burma, Afghanistan and Egypt. Recent approaches have included countries presently aligned with the US, such as Pakistan, Turkey and Iran.

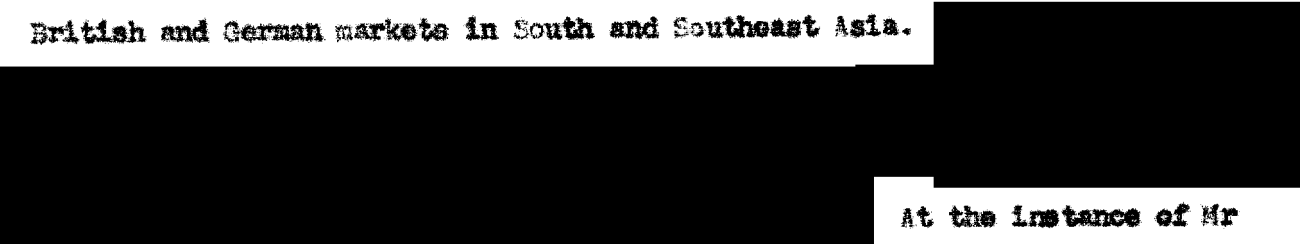
Up to this time the Soviets have made offers of credit to the less developed countries of something over \$1 billion, of which around \$800 million have been accepted. The Soviets have principally offered capital equipment and technical assistance to industrialize the underdeveloped countries. Arms have been provided to Egypt and Syria. Long-term loans at low interest rates have been offered. Of particular appeal to certain countries is Soviet willingness to accept payment in exportable surpluses or local currencies. For example, the Bloc has contracted for about one-fourth of Burma's estimated rice exports. Egypt is paying for Bloc arms by exports of cotton.

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Along with its extension of credits, the Bloc has strengthened its drive to expand its trade with the underdeveloped countries. During 1954 and 1955 the number of trade and payments agreements in force between the Bloc and Free World countries has almost doubled, a large proportion of the new agreements being with the underdeveloped areas. The Bloc sharply increased its participation in international trade fairs in 1955 (expenditures of about \$18 million at fairs in 32 countries) and designed many exhibits especially to appeal to underdeveloped countries.

Discussion

There has been no lack of attention to - and even alarm at - the implications of this switch of Bloc tactics from military threats to economic blandishments. As the result of a proposal by the German delegation, a working group of NATO is studying the Soviet economic offensive. Certain British and German commercial interests have expressed concern, not that the Bloc activities present a security threat to the Free World, but that they may be a threat to British and German markets in South and Southeast Asia.



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At the instance of Mr

Dodge, former Chairman of the CFEP, a Working Group of the Economic Intelligence Committee has been publishing a bi-weekly report on "Sino-Soviet Bloc Economic Activities in Underdeveloped Areas" and a comprehensive report on these activities is about to be published.

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Hence, although abundant information on Bloc penetration activities has been accumulating in various quarters, no action has yet been taken either to analyze Bloc motives more carefully or to develop policies and plans for Free World countermeasures against the Bloc activities. When Mr Dodge initiated the bi-weekly intelligence reports on Bloc activities, he also suggested the establishment of two high-level policy groups - one chosen from within the Government and one from without the Government - to analyze and consider these problems and constructive countermeasures thereto. Such groups should be set up without delay, lest the US and the Free World lose the initiative in encouraging and sponsoring the economic advancement of the less developed countries, and permit these areas to be absorbed into the Bloc by default.

The policy group or groups for consideration of Bloc activities in the Free World and countermeasures thereto will face a variety of complex problems, some of which are suggested and briefly outlined as follows:

a. The devising of effective countermeasures is particularly dependent upon intelligence - not only upon information as to what the Bloc is doing, but upon information, and analysis of that information, as to the real motives behind the Bloc's penetration activities. It is recognized, of course, that the long-range motive of the Bloc is to bring all countries of the world under Communist control. But it is of greater pertinence to the current problem to ascertain the more immediate motives stimulating Bloc activities in the underdeveloped countries. It is suggested that there are at least two of these: (1) a desire to develop assured sources of critical raw materials in neutral areas bordering or relatively near to the Bloc. Such assurance is vital to the Bloc, as it presses forward its industrialization plans and concomitant military potential. The Bloc may well be pushing its "peaceful trade" in order to build

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up stockpiles of raw materials against the outbreak of hostilities. Examples might be the metals and minerals of India and Burma, the rubber and tin of Indonesia and Malaya, the oil of the Middle Eastern area, etc. Bloc interest in certain rare minerals has even extended to such a remote area as Bolivia (see La Paz FSD No. 28, July 19, 1956). (2) A desire on the part of the Bloc to assure itself of trade routes and untrammelled exits from its largely "land-locked" (and Arctic-locked) present areas. This motive may account, in large part, for the Bloc activities in Egypt and other Middle East areas, in Afghanistan, Pakistan, Japan, etc. The present bi-weekly intelligence reports do not throw much light on this matter of motives. The collectors of intelligence should be particularly alert, and the analyzers of intelligence incisive, to determine what the Bloc is "getting out" of the countries penetrated. For example, the USSR ostensibly may be willing to take Burma's surplus rice in exchange for aid furnished; the important thing is to find what the USSR really wants out of Burma.

4 military routes!

Another aspect of the intelligence background of this problem needs more thorough exploration. The fact that the Russians and the Chinese Communists have been offering industrial equipment of various types to Southeast Asia has been interpreted as indicating that the Bloc has an "exportable surplus" of those items. This is not necessarily the case. With its centralized system of controls, the Bloc can readily divert some of its production as aid to the underdeveloped countries (or to fulfill commitments already made) if it believes that its aggressive motives will be served thereby. Also, the so-called "exportable surplus" could be a result of short-term domestic imbalances in Bloc production. This may explain some recent Chinese Communist exports of machine tools and steel products to Asian countries and Egypt.

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b. Undoubtedly the most difficult problem which the policy groups will face is the choice of weapons as countermeasures to the Bloc's penetration activities. All the ingenuity and imagination of all interested parties, within and without the Government, should be called upon to this end. The conventional instruments of the current "economic defense" program - trade controls, shipping controls, foreign assets controls, etc. - have a very limited, if any, usefulness as countermeasures. It might be supposed that our foreign aid program (economic and military) would be our most effective weapon. But this will require re-thinking, lest we be laid open to "blackmail" - expected to better every offer of aid which the Soviets make, with no assurance that the recipient country will be any more favorably disposed toward the US and the West. Nor should we take too much comfort in a report that the Burmese have become disenchanted with their deal with the USSR (the plethora of cement), and sit back and hope for the Bloc's campaign to break down of its own weight. What we need are new and "unconventional" weapons.

For example, one of the Bloc's tactics is to offer low-priced consumer goods (bicycles, fountain pens, etc.) in the Asian markets. These goods may be inferior in quality to the Western product; but in a country where the standard of living and purchasing power are low, it is the price appeal that counts. An industrialized country could protect itself by levying or raising a tariff. Let us suppose that Ceylon is being flooded with cheap Chinese Communist goods and we wish to "do something about it". It is useless to tell Ceylon to put up a tariff, or to cease trading with Communist China. Moreover, Ceylon does not want US aid - she fears that there are "strings attached". It might be worthwhile, in such cases for the US to "subsidize" US exports of the items in question, to the end that the superior American product be made

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available to the Ceylon market at a price equal to, or lower than, the Communist product. Another possible measure might be the "pre-emptive" purchase by the US, in the countries bordering the Bloc, of any critical or strategic materials in which intelligence has indicated a Bloc interest. This would have to be undertaken with great discretion, both to prevent the Bloc's becoming aware of our activity, and to prevent "blackmail" by the producing country.

It may be desirable that the policy groups engage a private research organization, outside the Government, to make thorough studies of the above-mentioned measures as well as any other potentially useful devices, for use in planning an action program.

c. The Sino-Soviet activities in the underdeveloped countries are, in essence, economic warfare. The US reaction to these activities involves all facets of US foreign policy: economic, psychological, political, military. Though the Bloc activities, and our countermeasures thereto, may be primarily of an economic nature, we will have to consider these corollary aspects of any countermeasures: psychological - we want the underdeveloped countries to be convinced that our efforts are in line with their aspirations for independence and a better life; political - we want them to be on the side of the Free World and not fall as victims to Communist totalitarianism; military - we must preserve the military defenses of the Free World, and not permit ourselves or our friends to be deceived by Communist "peaceful coexistence" tactics. Hence the policy group or groups will have to entertain a far wider view, and maintain closer contact with all aspects of the total defense program, than is implied in an "economic defense" program as such.

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Conclusions:

1. Policy groups, within and without the Government, to organize and direct an action program of countermeasures to Sino-Soviet Bloc activities, should be established without delay.
2. The collection and analysis of intelligence should be more sharply focused on the real motives behind the Bloc activities.
3. All possible countermeasures, conventional and unconventional, should be explored as to their applicability and possible success. It may be advisable to engage an outside research organization to conduct such studies.
4. In addition to economic aspects, the psychological, political and military aspects of countermeasures must be given careful consideration.

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