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SOVIET BLOC ECONOMIC WARFARE CAPABILITIES AND COURSES OF ACTION



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SOVIET BLOC¹ ECONOMIC WARFARE CAPABILITIES AND COURSES OF ACTION

THE PROBLEM

To estimate Soviet Bloc capabilities in the field of economic warfare, the vulnerability of the Free World to Bloc economic warfare measures, and probable Bloc courses of action.

DEFINITION

Economic warfare is defined in this estimate as the use of economic measures to alter the relative power positions and alignments of opposing nations or groups of nations. This can be done by affecting either the relative economic strength of the nations in the two groups or reducing the size and effectiveness of the opposing group by causing political defections or, what is more likely, dissensions. This estimate will consider only those Bloc economic measures designed to:

- a. Improve the Bloc's political position in the non-Communist world;
- b. Increase the dependence of non-Communist countries on Bloc trade;
- c. Weaken non-Communist support for controls on exports of strategic goods to the Bloc; and
- d. Weaken the economic strength of the non-Communist world.

CONCLUSIONS

1. The economic warfare capabilities of the Soviet Bloc lie primarily in its ability to weaken the political cohesion within the non-Communist world by: (a) offers to increase trade; (b) actual increases in trade; and (c) threats to cut off trade where it has been built up.
2. The Soviet Bloc has very limited capabilities for undermining the economic or military strength of the non-Communist world by denying goods and services because the non-Communist world obtains from the Soviet Bloc only a very small range and quantity of imports. Denial of these goods would have a negligible effect on the non-Communist world's over-all economic capabilities and none on its military capabilities.
3. Increased trade could be exploited by the Bloc to create the impression that its intentions are peaceful and that it desires to cooperate with the non-Communist world. If vigorously pushed and supported by Communist propaganda, a Bloc program to expand trade with the non-Communist world could result in a general weakening of prevailing hostile attitudes toward the Bloc. At the same time Bloc offers of increased trade, even if not resulting in any considerable increase of trade, could be used to aggravate the dissatisfaction of some non-Communist

¹ The USSR, Communist China, North Korea, and the Eastern European Satellites.

countries with the existing export control system and even to weaken the system itself.

4. The Bloc could almost certainly expand its external trade to, say, two or three times the 1952 level without markedly retarding its progress toward self-sufficiency. Such an increase in the volume of trade could easily be made acceptable to the non-Communist world and trade with the Bloc would still be only a small percentage of the total trade of non-Communist countries.

5. Even with such increases, Bloc economic warfare could not by itself be the decisive factor in determining the attitudes of non-Communist states on major issues in the struggle between the Free World and the Bloc. In certain countries whose trade with the Bloc is, or could be, of considerable importance to their economic stability, Bloc economic warfare could add to local Communist strength, intensify existing neutralist tendencies, cause disagreement with some Western policies, and make US leadership more difficult to exert. Examples of countries where the Bloc might expect to achieve such objectives are Finland, Austria, Italy, Egypt, Japan, India, Iran, Indonesia, and Chile. However, even in these countries trade relations with the Bloc will be of only secondary importance for their over-all foreign policy.

6. The Bloc's economic policies will be tied directly to its over-all policies both domestic and foreign, and will reflect a high degree of opportunism and flexibility. For the present, this method of formulating economic policy is resulting in well-publicized offers to increase trade, coupled in selected areas with moderate actual increases. During the next few

years the Bloc will probably attempt to exploit economic warfare opportunities associated with increased trade offers. Such a policy would hold out political gains that could be obtained at no net economic cost to the Bloc. We do not believe, however, that the Bloc will undertake economic warfare measures involving a large scale increase in total external trade since a large expansion of external trade would increasingly involve changes in the economy of the Bloc which Bloc leaders would be progressively less willing to accept.

7. The Bloc will probably continue to use gold to pay for an excess of imports, and this may be done in connection with economic warfare efforts utilizing trade. We do not believe that the Bloc will make extensive use of currency or gold price manipulation, or commodity dumping, as economic warfare techniques.

8. There are many opportunities for Bloc economic warfare utilizing economic aid and technical assistance, and the Bloc will probably make further gestures of assistance to underdeveloped areas where it would expect to obtain the maximum propaganda benefits from such assistance. It is unlikely, however, that the Bloc will carry out substantial programs of this type except on a selective basis.

9. Soviet Bloc economic warfare measures could be effectively countered without significant strain upon the over-all economic resources of the non-Communist world, if prompt agreement on countermeasures could be obtained. However, disagreements as to the seriousness of the threat of Bloc economic warfare, and as to countermeasures, could produce significant political strains within the non-Communist world.

DISCUSSION

I. BLOC TRADE POLICY AND ORGANIZATION

Traditional Bloc Trade Policies and Organization

10. Soviet policy makers have in the past given highest priority to the development of industrial and economic strength and to the achievement of economic self-sufficiency. External trade since the mid-thirties has been low, relative to output and resources. Such external trade as the Soviet Union has engaged in has been strictly controlled so as to make a maximum contribution to the development of Soviet strength and to the reduction of economic dependence upon outside sources of supply. This trade has generally consisted of exports of industrial raw materials and foodstuffs, often at great hardship to the Soviet population, in exchange for imports of strategic raw materials and machinery and other industrial products useful for the development of industrial self-sufficiency.

11. Bloc economic warfare efforts in the past have not been extensive. They have, for the most part, been confined to measures taken against certain selected countries — notably Yugoslavia, Iceland, and Finland — and to continuing attempts to weaken and to circumvent non-Communist export controls.

12. Since 1918 Soviet external trade has been administered by a state monopoly. State trading corporations, directly controlled by Moscow, have generally been organized to handle Soviet imports or exports of particular commodities, but in some cases to handle all trade with a particular area.

13. Satellite foreign trade has been similarly administered by state monopolies. The establishment of the Council of Economic Mutual Assistance in January 1949, representing the USSR and its East European Satellites, was an important step in consolidating the Communist countries into an economic bloc. There has been increasingly detailed planning and direction of Satellite trade from Moscow.

14. Soviet trade policy, with its rigorous controls over the Satellites, has resulted in the

concentration of a very high proportion of the trade of Bloc countries within the Bloc. The increase in both the relative and absolute importance of this trade has been particularly marked since World War II. The volume of trade among countries now composing the Bloc increased by six to eight times between 1937 and 1952. In 1937 it composed 9 percent of their total external trade and in 1952 76 percent. Only 20 percent of the Soviet Union's total external trade and 27 percent of external trade of the Satellites (including that of Communist China) was with the non-Communist world in 1952.

15. Communist China's trade with the rest of the Bloc would have increased in any case, due to the Communist policy of seeking to reduce dependence on trade with non-Communist countries. However, the Korean war greatly stimulated this tendency, both because of export controls applied by non-Communist countries and China's need for economic and military assistance from Russia.

Trends in Trade between the Bloc and Non-Communist Countries

16. The peak of Soviet foreign trade (calculated either in physical volume or in rubles at current prices) came during the years of the first Five-Year Plan (1928-1932) when the USSR was importing large amounts of industrial equipment from the West. These imports gradually decreased as domestic production grew.

17. As postwar reconstruction progressed, trade between the Soviet Bloc and the non-Communist world (measured in constant prices) partially recovered, and by 1948 it had reached about half the 1938 level of trade between the same areas. After 1948, with the economic consolidation of the Bloc and the imposition of non-Communist trade controls, it began to decline and by 1952 had fallen to about one-third of the 1938 level. This trade was almost certainly less in 1953 than in 1952.

18. Bloc interest in purchasing non-strategic commodities from non-Communist countries

has until recently been slight, in accordance with Bloc economic policies calling for the greatest feasible degree of self-sufficiency. Moreover, it is probable that for the same reason Bloc demand for imports of strategic goods would, on the whole, have remained low in relation to the pre-World War II level, even in the absence of non-Communist export controls. These controls have, however, restricted Bloc imports of strategic goods and thus contributed to the decline of Bloc trade with non-Communist countries and to the modification of the pattern of that trade. Non-Communist export controls have had a greater effect upon the external trade of Communist China than upon the trade of the remainder of the Soviet Bloc, but they have not been the most important cause of China's rapid integration into the Bloc trading area.

Recent Developments

19. Although there is no evidence that Bloc leaders have abandoned their emphasis upon industrial expansion, military preparedness, and self-sufficiency, the following developments since early 1953 suggest a policy of increasing trade with the non-Communist world:

a. Bloc countries have recently made several offers and have signed agreements to increase their trade with non-Communist countries, including several countries with which they had no previous trade agreements.² For example, Bloc countries have recently shown increased interest in trade with Latin America, South Asia, Egypt, Greece, and other parts of the non-Communist world. Trade agreements recently concluded for the first time between Bloc and non-Bloc countries include those between Bulgaria and India, and between the USSR and Argentina. The recent agreement between the USSR and France is the first since 1934.

² See Schedules I, II, and III for a summary of data on recent trade agreements and other trade arrangements between the USSR and non-Communist countries. Only a small proportion of total Soviet trade with the non-Communist world is conducted under such agreements and arrangements.

b. In some of these agreements increased imports of non-Bloc consumer goods have been accepted by the Bloc, while capital goods, strategic metals, petroleum, and increased quantities of primary goods have been allotted for export. The Bloc has already made some shipments of goods of this type. Trade agreements between Bloc countries and certain Latin American countries are good examples of this development.

c. The Bloc has recently demonstrated greater willingness to use multilateral trading techniques and to balance certain accounts in transferable currencies. For example, the USSR has been selling gold for sterling to support purchases from the sterling area and other countries. With Finland the USSR has agreed to settle its expected deficit partially in non-Bloc currencies.

II. BLOC ECONOMIC WARFARE BY MEANS OF TRADE

20. Trade is potentially the most important instrument of economic warfare available to the Bloc. It is impossible, however, for the Bloc to wage economic warfare of serious proportions against the non-Communist world solely by shutting off Bloc exports of strategic commodities, since the non-Communist world does not depend upon the Bloc for such goods. Economic warfare through trade must therefore be conducted by the Bloc mainly in three ways: (a) by offering to engage in increased trade with certain non-Communist countries; (b) by building up trade with certain non-Communist countries to such a level as to create a state of dependence upon the continuation of that trade; and (c) by cutting off or by threatening to cut off trade with non-Communist countries.³ By these means the Bloc may seek to achieve such objectives as weakening of non-Communist export controls and reducing support for Western defense programs. By increasing trade, or promising to increase trade, the Bloc might also in certain countries and especially in certain groups encourage more favorable political attitudes and enhance the influence of local Commu-

³ See NIE-59, "Probable Economic Effects of a Severance of East-West Trade," 16 April 1953.

nists. Where trade agreements resulted in the establishment of permanent Bloc trade missions in non-Communist countries, these missions could be used for purposes of political warfare.

21. The Bloc has recently made several attempts to use increased trade or promises of increased trade for what appear to be economic warfare purposes. At the Moscow Economic Conference in April 1952, an attempt was made to use offers of increased trade to create dissatisfaction with Western, and particularly with US, controls on exports to the Bloc. Communist China has bartered rice for rubber from Ceylon on terms more favorable than Ceylon could have obtained elsewhere, thus creating dissatisfaction in Indonesia and Malaya with export controls. Attractive trade offers made by China to Japan have been made conditional upon Japanese agreement to ship strategic commodities. New Bloc trade agreements with Finland, Iceland, Iran, Argentina, and India are almost certainly motivated to some extent by the desire to improve the political position of the Bloc in these countries and may have been drawn up with the object in mind of creating dependence upon certain kinds and levels of trade with the Bloc. All of these moves, except the Moscow Economic Conference, were also of direct economic advantage to the Bloc.

Bloc Capabilities for Engaging in Increased Trade with the Non-Communist World

22. Trade between the countries now composing the Soviet Bloc and the rest of the world was in 1952 at about one-third of the 1938 level (measured in constant prices). This reduction took place despite substantial increases in world production and trade. By 1952 the Bloc gross national product was about one-third greater than in 1938. In the same period the external trade of non-Bloc countries increased by 36 percent, and intra-Bloc trade increased six to eight times.

23. We believe that there are economically advantageous opportunities for substantially increased trade between the Soviet Bloc and the non-Communist world. A doubling, say,

of the 1952 level of such trade in the course of a year or two would almost certainly bring a net economic gain to the Bloc and probably not significantly affect Bloc programs. A doubling of this trade would increase Soviet Bloc imports by \$1.5 billion, or no more than 1 percent of Bloc gross national product, and exports by \$1.3 billion. In view of the relatively small magnitudes involved, Bloc leaders would probably not encounter any great difficulty in disposing of the additional imports or in making the additional exports available. In their efforts to do so, they would enjoy the advantage of complete control over a large economy with great resources. Moreover, the economic impact on the Bloc programs of a doubling of trade with the non-Communist world would be even less than indicated if part of the increase were accomplished by some rerouting of current intra-Bloc trade through non-Communist trade channels.

24. Bloc leaders would probably encounter some obstacles to the expansion of trade with the non-Bloc world. The goods which Western European countries would be most willing to import from the Bloc, in order to save dollars, are by and large agricultural products and raw materials. Before World War II such items were traditionally exported from Eastern Europe on a large scale in exchange for manufactured goods. It is unlikely, however, that the Bloc could restore this trade pattern. Industrialization has proceeded rapidly in the USSR and in some of the Satellites, while the output of Bloc agricultural products and raw materials has lagged behind the expanding requirements of the Bloc itself. Any substantial future increase in external trade will probably have to involve increased Bloc exports of manufactured goods. Bloc attempts to increase its exports of manufactured goods to the non-Communist world would encounter difficulties, at least for a time, in the designing, production, and merchandizing of such goods in competition with Western producers. Even Czechoslovakia and East Germany would be hampered initially in such trade by the loss of former commercial contacts with the West. In addition, the Bloc's past trading practices have given it a poor reputation.

25. A doubling of the 1952 level of Bloc trade with the non-Communist world, in any pattern which such an increase would be likely to assume, would entail some temporary retardation of the Bloc's progress toward self-sufficiency. However, by stockpiling and maintaining standby capacity the Bloc could lessen its vulnerability to subsequent interruption of imports from the West. By carefully choosing exports and imports, the Bloc could probably also minimize any possible disruptive effect which increased trade would have on Bloc economic programs. Furthermore, expansion of trade could help the Bloc to realize its immediate program for increasing the availability of consumer goods and ultimately contribute to the achievement of self-sufficiency at higher levels of output.

26. The Bloc could probably expand its external trade to more than twice the 1952 level without greatly retarding progress toward self-sufficiency, disrupting basic programs, or making a significant reallocation of resources. However, a further expansion of external trade would increasingly involve changes in the economy of the Bloc which Bloc leaders would be progressively less willing to accept.

Receptivity of the Non-Communist World to Bloc Trade Offers

27. There is a high degree of receptivity in many non-Communist countries to proposals for increased trade with the Soviet Bloc because of the widespread belief that such trade would help to:

- a. Eliminate or alleviate balance of payment difficulties;
- b. Restore historically profitable trade patterns;
- c. Develop larger and more diversified markets and sources of supply, and in some cases secure protection from the uncertainties of the US market;
- d. Improve terms of trade; and
- e. Improve political relations with the Bloc and so postpone or avoid war. (The "neutrals" want to trade with both worlds as an expression of their independence.)

28. Receptivity to Bloc trade offers will vary greatly from country to country and will depend as much on political as on purely economic factors. Most receptive to Bloc trade offers would be those countries which: (a) find it difficult to satisfy their economic needs within the trading area of the non-Communist world; and (b) distrust the leadership of the Western Powers or lean toward a neutralist position on issues between the Soviet Bloc and the non-Communist world. A general economic recession in the US or in the non-Communist world as a whole would almost certainly increase non-Bloc interest in trade with the Bloc, dissatisfaction with controls on exports to the Bloc, and vulnerability to Bloc economic warfare measures.

29. On balance, we believe that an attempt by Bloc leaders to induce a doubling of the 1952 level of trade with the non-Communist world would probably succeed. It would meet with a favorable public response in many non-Communist countries, and would almost certainly result in net economic gain for the countries concerned.

Consequences to the Non-Communist World of Bloc Economic Warfare by Means of Trade

30. The most immediately effective economic warfare measures which the Bloc is likely to employ would be directed at the non-Communist export control system. The Soviet Bloc could put pressure on the export control system and cause international and internal dissensions in the non-Communist world by making offers of increased trade or by actual increases of small magnitude. If one non-Communist state yields to Bloc inducements to undermine the export control system, the receptivity of other states to similar inducements will increase, and the Bloc will find it progressively easier to obtain strategic goods as well as to cause dissension in the non-Communist world over export controls.

31. If the total external trade carried on between the Soviet Bloc and the non-Communist

countries in 1952 were doubled or tripled, it would still be only a small percentage of the total trade of the non-Communist countries. However, if such an increase in trade were largely concentrated upon those non-Communist countries which are most vulnerable to economic warfare measures, it would cause an important proportion of the foreign trade of those countries to be carried on with the Bloc. The economic stability of those countries might thus become dependent upon a continuation of this trade. Under such circumstances the governments and peoples of those countries might become disposed to improve their political relations with the Soviet Bloc, with a consequent weakening of the cohesiveness of the non-Communist world. Bloc leaders could also exert pressure upon the governments of those countries by reducing, or threatening to reduce, the flow of trade.

32. Such Bloc economic warfare measures against individual non-Communist countries could be effectively countered without significant strain upon the over-all economic resources of the non-Communist world. However, disagreements as to the seriousness of the threat of Bloc economic warfare, and as to countermeasures, could produce significant strains within the non-Communist world. On the other hand, if it could be made apparent to non-Communist countries that the Soviet Bloc was seeking to use trade to weaken their economies and might eventually use it to extort political and economic concessions, the net result might be an increase in non-Communist cohesion and reduced receptivity to Bloc trade offers.

Economic Warfare Against Western Europe by Means of Trade

33. In 1952 trade with the Soviet Bloc accounted for less than 3 percent of the total international trade of the countries of Western Europe. Those countries which in 1952 had more than 3 percent of their total trade with the Bloc are listed below with imports from the Bloc and exports to the Bloc shown as percent of total trade:

TRADE WITH THE BLOC AS PERCENT OF TOTAL INTERNATIONAL TRADE OF CERTAIN WESTERN EUROPEAN COUNTRIES, 1952

Country	Imports	Exports
Finland	19	26
Austria	11	13
Iceland	7	8
Sweden	6	8
Turkey	4	5
Denmark	4	4
Italy	4	4
Norway	3	5
Switzerland	3	4

34. Because of special circumstances Finland and Austria carry on a large percentage of their trade with the Bloc. They are therefore vulnerable to economic pressures. Italy, which carries on a much smaller proportion of its total trade with the Bloc, is also vulnerable because of widespread unemployment, especially in industries producing strategic goods, and because of local Communist strength.

35. Western European countries are generally receptive to Soviet Bloc offers of increased trade. There is a widespread and frequently exaggerated belief in the possibilities for expansion of trade with the Bloc.

36. Some Western European countries have serious export marketing problems because of overvalued currencies or high production costs in specific industries. Finland, Austria, and Italy, for example, have many high-cost producers of metal products who are particularly interested in Bloc markets and who may be expected to become more interested if the demand for their products diminishes in non-Communist markets. The Soviet Bloc has already brought pressure to bear on Italy in an attempt to force Italy to relax its export controls and to create discord between Italy and the US. Poland and Czechoslovakia have curtailed deliveries of coal to Italy and have made the restoration of the former volume of deliveries conditional upon the export of strategic goods.

Bloc Economic Warfare by Means of Trade with the non-Communist Far East

37. The non-Communist countries of the Far East are not now heavily dependent upon

trade with the Soviet Bloc. Current trade between these countries and the Bloc amounts to between 3 and 4 percent of their total international trade. Four-fifths of their trade with the Bloc is with Communist China and one-fifth with the European Soviet Bloc. Most non-Communist countries of this area are highly receptive to Bloc offers of increased trade, and there is a widespread feeling that the existing export control system is unreasonable.

38. Japan offers an important target for Bloc economic warfare by means of increased trade. Many Japanese look upon increased trade with the Bloc as a panacea for their current and prospective economic difficulties, and as an essential to the development of a satisfactory political position in Asia. These hopes, however, are based on what we believe to be overoptimistic estimates of the possibilities of expanding trade with the Chinese mainland. We do not believe that Japan's annual trade with Communist China, even with the removal of present restrictions, and with an intensive trade promotion effort on the part of the Bloc, could amount to more than \$350 million each way. This would produce a one-third increase in Japan's current level of total exports. Trade on this scale would by no means be a panacea, but it would contribute substantially toward easing Japan's economic problems.

39. More concrete and attractive Communist trade overtures to Japan can be expected to increase agitation in Japan for the relaxation and ultimate removal of restrictions on trade with the Soviet Bloc. Such overtures would almost certainly strengthen neutralist groups in Japan and those forces that are determined to reassert Japan's independent position in respect to world problems.

40. Some of the other Southeast Asian countries would be targets for Bloc economic warfare principally because they might hope to find in the Bloc additional export outlets for their surplus stocks of rubber and rice. Furthermore, in Burma and Indonesia, trade with the Bloc is viewed as a desirable step toward the relaxation of international tensions in Asia. There may be some skepticism about the practical possibilities for a satisfactory

trading relationship with the Bloc in view of past failure of publicized Bloc offers of trade and assistance to materialize. However, Indonesia has recently signed a trade agreement with Communist China which may result in some shipments of rubber, and Burma reportedly is negotiating trade agreements with both Communist China and the USSR. Finally Communist China can apply some economic pressure on the UK by manipulating its trade with Hong Kong.

Bloc Economic Warfare by Means of Trade with South Asia

41. Soviet Bloc trade with South Asian countries, with the exception of Ceylon, has not shown any considerable upward trend. During the past three years, trade with the Bloc has made up less than 3 percent of India's total trade. India signed an agreement with the USSR in December and would probably welcome the opportunity to demonstrate its neutralism by increased trade with the Bloc. However, the agreement makes no specific commitments as to imports and exports, and may not lead to any significant expansion of present trade volume. In the case of Pakistan, the importance of Bloc trade declined in 1953, principally because of lower shipments of raw cotton to China. One percent of Pakistan's imports in 1953 came from the Bloc and about 5 percent of exports were sold there, compared with 22 percent in 1952. Since the conclusion of the rubber-rice barter agreement with China, Ceylon's trade with the Bloc has risen to about 12 percent of imports and 16 percent of exports and is of considerable importance to Ceylon. The economies of most of the countries of South Asia depend heavily upon the volume and price of their exports—cotton and jute in Pakistan, tea and rubber in Ceylon, and jute, cotton textiles, and tea in India. Any offer from the Bloc to buy steadily more of these products at favorable prices would be attractive to the countries of the area. However, the availability of tea for export in Communist China, and the fact that China is continuing to expand its output of raw cotton and jute, are likely to limit the Bloc's willingness to absorb

these particular goods from South Asia in quantity and on a continuing basis.

42. Afghanistan has always conducted a considerable part of its trade with the USSR. Recently, owing mainly to larger purchases of petroleum, this trade has increased moderately. In addition, under an agreement announced in January 1954, the USSR is making a loan to Afghanistan valued at \$3½ million and is supplying technicians for the construction of grain storage and other facilities. These Bloc moves may be aimed at countering US assistance to Afghanistan.

Bloc Economic Warfare by Means of Trade with the Middle East

43. Bloc trade has become increasingly important to Egypt (12 percent of Egypt's total imports and 16 percent of exports in the first half of 1953) particularly in view of the recent decline in UK purchases of cotton. Bloc trade has also been significant for Iran (about 13 percent of total foreign trade in 1952 and somewhat less in 1953) because it provides a market for the agricultural products of Iran's northern provinces, provides essential imports, and decreases the pressure on Iran's limited foreign exchange. Iran's total trade is low, however, compared with the period when oil was being exported. The rest of the Middle East has had very little trade with the Bloc.

44. The countries of the Middle East, except Turkey, would probably be highly vulnerable to Bloc economic warfare carried on by means of trade. There is wide dissatisfaction with the area's general economic and political dependence upon the West, and strong neutralist tendencies with respect to the conflict between the Soviet Bloc and the Free World. There is no indication that any government in the area would wittingly accept Communist influence or domination, but several, notably Egypt, Syria, and Israel, might enter into far-reaching agreements with the Bloc for the sake of direct economic benefits and in the hope of securing further advantage by playing off the Bloc against the West.

Bloc Economic Warfare by Means of Trade with Latin America

45. The trade of Latin American countries with the Soviet Bloc in 1952 probably comprised less than 1 percent of the total foreign commerce of those countries, but decreasing demand and lower prices for Latin American exports, especially in the US, has aroused the area's interest in the possibility of expanding its trade with the Bloc. Special impetus was given to this interest in August 1953 by the signature of a trade agreement between Argentina and the USSR. The agreement, the first concluded by the USSR with a Latin American country, included provision for Russian delivery of \$30 million of capital equipment on credit. A number of other countries, notably Brazil, Chile, and Uruguay, appear to view expanded trade with the Bloc as a partial solution to their current need for export markets and for non-dollar sources of machinery, equipment, and industrial raw materials. In some countries, the question of trade with the Bloc is an issue which is being exploited by Communists and, to a lesser extent, by extreme nationalists. If the Soviet Bloc succeeds in substantially increasing its trade with Latin America, this development might further complicate Latin American relations with the US and strengthen Communist influence in certain Latin American countries.

Probable Courses of Action

46. During the next few years the economic policy of Soviet Bloc leaders will probably include an attempt to expand trade with the non-Communist world. This effort will of itself yield economic warfare opportunities. The Bloc will probably exploit these opportunities, especially if it estimates that economic and political conditions in the non-Communist world increase receptivity to Bloc trade and if there are increasing evidences of conflict in the non-Communist world over the question of trade with the Bloc. However, we do not believe that the Bloc will make large expenditures of resources or modify other programs in order to seek economic warfare objectives. Moreover, Bloc leaders will continue to be wary

of dependence upon trade with the outside world, and will take steps to protect the Bloc against the effects of sudden loss of such trade.

III. UTILIZATION OF ECONOMIC AID AND TECHNICAL ASSISTANCE FOR ECONOMIC WARFARE PURPOSES

47. There are many opportunities for Bloc economic warfare by utilizing grants, loans, and/or technical assistance or promises of all three. The Bloc has made a few gestures of this kind, including technical assistance to India and Afghanistan and the recent agreement to lend Finland the equivalent of \$10 million. Such opportunities are greatest in those underdeveloped areas where anti-Western sentiment or "neutralism" is already strong and where local Communist parties are strong enough to make capital out of any such moves.

48. The Bloc will probably make further gestures of assistance to underdeveloped areas, and will seek to exploit their propaganda value to the utmost. However, there is as yet no evidence that the Bloc is willing to undertake substantial aid programs. The exports involved in such programs might seriously interfere in the next few years with the Bloc's programs for increasing the availability of consumer goods and for industrial development and greater self-sufficiency. Furthermore, Bloc leaders probably realize the difficulties of competing with the US in this field. In some countries, moreover, Bloc leaders may believe that present bad economic conditions provide a favorable setting for the growth of Communist influence.

IV. BLOC ECONOMIC WARFARE UTILIZING GOLD AND MANIPULATION OF CURRENCY AND COMMODITY MARKETS

49. The Bloc gold reserves, which are estimated at \$3 to \$5 billion, and its current gold production (variously estimated at from \$200 to \$500 million) constitute an economic warfare potential. Since the death of Stalin, Bloc leaders may have a changed conception of the potential usefulness of gold to the Bloc. They may now be less anxious to build up gold

stocks and may even be willing to draw on them. An obvious use of gold would be in connection with an effort to increase trade with the non-Communist world. The sale of Bloc gold to finance an excess of imports would enable the Bloc to gain some of the advantages of increased trade with selected non-Communist countries without a balanced exchange of commodities with each country.

50. The Bloc's gold stock might also be used in connection with attempts to manipulate currency markets in the non-Communist world in order to achieve economic warfare objectives. Practically all countries, however, have currency controls, stabilization funds, and other means of protecting their currencies against such manipulation. Bloc efforts to manipulate the price of gold in non-Communist countries would not have much effect since nearly all gold sales in and between these countries take place at a price regulated under the articles of the International Monetary Fund, to which most non-Communist countries adhere. In the few minor countries where currency or gold price manipulation might be attempted with some expectation of success the economic warfare gains would be so small or uncertain that we do not believe the Bloc will undertake such measures.

51. In recent years Bloc gold sales have run at an estimated annual rate of \$60 to \$80 million. In 1953 they reached \$150 million, with sales concentrated in the latter part of the year. These releases seem to be explained by balance of payments considerations and particularly by a shortage of sterling in the Bloc. There is as yet no evidence that gold sales are connected with an economic warfare effort.

52. The Bloc is not likely to attempt to achieve economic warfare objectives by flooding commodity markets in the non-Communist world. The Bloc has exportable surpluses of only a few commodities, notably manganese, chromite, and tungsten. The Bloc could throw large quantities of these commodities on the market at lower than present world prices, thereby creating distress among non-Communist producers. None of these commodities, however, accounts for enough of any producing country's earnings to have a seri-

ous effect upon the economy of that country. Neither would disturbances in these markets affect over-all non-Communist industrial or military potential. Such disturbance would cause ill-will toward the Bloc in underdeveloped producer countries and thus handicap the Bloc's efforts to gain strength in those

countries. Bloc supplies of petroleum, which the Bloc is now selling in the non-Communist world, are not now large enough to upset the petroleum market seriously. In the case of other commodities, the Bloc could disrupt markets only by offering goods for sale at the expense of internal requirements.

SCHEDULE I

CURRENT USSR EXPORT COMMITMENTS TO THE NON-COMMUNIST WORLD;
 SELECTED PRODUCTS

<u>IMPORTER</u>	<u>PRODUCT</u>	<u>QUANTITY OR VALUE</u>	<u>COMMITMENT AND EXPIRATION</u>
<i>Petroleum Products</i>			
Belgium	gas oil	100,000 tons	T.A. to 31 Dec. 1954 "
Finland	petroleum products	790,500 tons	T.A. to 31 Dec. 1954
France	crude oil	(400,000 tons) "	T.A. to 30 June 1954
West Germany	diesel oil	\$6 million	Barter, signed Jan. 26, 1954
Greece	fuel oil	300,000 tons	T.A. to 28 July 1954
Iceland	petroleum products	200,000 tons	T.A. to 1 Aug. 1954
Italy	crude oil	200,000 tons	T.A. to 26 Oct. 1954
Italy	fuel oil	100,000 tons	T.A. to 26 Oct. 1954
Sweden	petroleum products	600,000 tons	T.A. to 31 Dec. 1954
UK	petroleum products	100,000 tons	Contract, 30 Jan. 1954
Israel	fuel oil	100,000 tons	Barter, 3 Dec. 1953
Israel	fuel oil	100,000 tons	Option to 31 Mar. 1954
India	crude and products	(not specified)	5 year T.A.
Afghanistan	petroleum products	(not reported)	T.A. to 30 June 1954
Argentina	crude	500,000 tons	T.A. to 5 Aug. 1954
Argentina	petroleum products	\$500,000	T.A. to 5 Aug. 1954
Denmark	petroleum products	200,000 tons	Soviet offer
Japan	crude oil	223,000 tons	Soviet barter offer
<i>Grain</i>			
Belgium	grains	200,000 tons	T.A. to 31 Dec. 1954
Denmark	wheat	50,000 tons	T.A. to 30 June 1954
Finland	grains	265,000 tons	T.A. to 31 Dec. 1954
France	corn	65,000 tons	T.A. to 30 June 1954
Italy	hard wheat	100,000 tons	T.A. to 26 Oct. 1954
Norway	grains	110,000 tons	T.A. to 31 Dec. 1954
Sweden	corn	10,000 tons	T.A. to 31 Dec. 1954
<i>Coal</i>			
Belgium	anthracite	60,000 tons	T.A. to 31 Dec. 1954
Finland	coal and coke	300,000 tons	T.A. to 31 Dec. 1954
France	anthracite	200,000 tons	T.A. to 30 June 1954
Greece	anthracite	10,000 tons	T.A. to 28 July 1954
Italy	anthracite	100,000 tons	T.A. to 26 Oct. 1954
Japan	Sakhalin coal	350,000 tons	Barter deals approved
Argentina	coal	300,000 tons	T.A. to 5 Aug. 1954

USSR EXPORT COMMITMENTS (Cont'd)

<u>IMPORTER</u>	<u>PRODUCT</u>	<u>QUANTITY OR VALUE</u>	<u>COMMITMENT AND EXPIRATION</u>
<i>Manganese</i>			
Belgium	ferro-manganese	10,000 tons	T.A. to 31 Dec. 1954
Belgium	manganese ore	90,000 tons	T.A. to 31 Dec. 1954
Finland	manganese ore	30,000 tons	T.A. to 31 Dec. 1954
France	manganese ore	30,000 tons ^c	T.A. to 30 June 1954
Italy	manganese ore	25,000 tons	T.A. to 26 Oct. 1954
Norway	manganese ore	30,000 tons	T.A. to 31 Dec. 1954
Sweden	manganese ore	15,000 tons	T.A. to 31 Dec. 1954
West Germany	manganese and chrome ore	\$4.8 to 6.0 million	Barter deal 26 Jan. 1954
<i>Chrome</i>			
Belgium	chrome ore	2,000 tons	T.A. to 31 Dec. 1954
France	chrome ore	35,000 tons ^d	T.A. to 30 June 1954
Italy	chrome ore	15,000 tons	T.A. to 26 Oct. 1954
Norway	chrome ore	30,000 tons	T.A. to 31 Dec. 1954
Sweden	chrome ore	20,000 tons	T.A. to 31 Dec. 1954
West Germany	(see manganese ore above)		
<i>Nickel</i>			
West Germany	nickel	\$900,000	Barter deal 26 Jan. 1954

^a T.A. - Trade Agreement, annual unless otherwise specified.

^b This quota deleted 18 February 1954; exports of petroleum products had occurred by then and may continue.

^c This quota added 18 February 1954.

^d This quota deleted 18 February 1954.

SCHEDULE II

CURRENT USSR IMPORT COMMITMENTS FROM THE NON-COMMUNIST WORLD;
 SELECTED PRODUCTS

<u>EXPORTER</u>	<u>PRODUCT</u>	<u>QUANTITY OR VALUE</u>	<u>COMMITMENT AND EXPIRATION</u>
<i>Ships^a</i>			
Belgium	refrigerator ships	10	T.A. to 31 Dec. 1954
Belgium	cargo ships	10	T.A. to 31 Dec. 1954
Belgium	floating cranes	4	T.A. to 31 Dec. 1954
Denmark	refrigerator ships	5	T.A. to 30 June 1954
Denmark	ship repairs	5 million kroner	T.A. to 30 June 1954
Finland	ice breaker	1	T.A. to 31 Dec. 1954
Finland	tankers, 1,100 tons	5	T.A. to 31 Dec. 1954
Finland	ocean steamers, 3,200 tons	5	T.A. to 31 Dec. 1954
Finland	ocean trawlers	3	T.A. to 31 Dec. 1954
Finland	ocean tugs	14	T.A. to 31 Dec. 1954
Finland	fishing vessels	16	T.A. to 31 Dec. 1954
Finland	lake barges	56	T.A. to 31 Dec. 1954
Finland	floating cranes	8	T.A. to 31 Dec. 1954
France	cargo ships	6	T.A. to 30 June 1954
Italy	cargo ships	3	Long-term T.A. 1948 ^b
Italy	refrigerator ships	3	Long-term T.A. 1948
Italy	tugs	15	Long-term T.A. 1948
Italy	floating cranes	4	Long-term T.A. 1948
Sweden	trawlers	20	T.A. to 31 Dec. 1954
Sweden	refrigerator ships	5	T.A. to 31 Dec. 1954
UK	trawlers	20	Contract
West Germany	fish cannery vessels	10	Barter deal 26 Jan. 1954
Japan	ship repairs	approx. \$3.5 million	Barter deals
Netherlands ^c	.....	.....	.....
<i>Electric Power Equipment</i>			
Belgium	Equipment to produce 180,000 kilowatts	.....	T.A. to 31 Dec. 1954
Italy	500 kilowatt installations	25 units	T.A. Long-term, 1948 ^b
Sweden	Power station equip.	7 million kroner	T.A. to 31 Dec. 1954
<i>Equipment for Food Processing and other Light Industries</i>			
Belgium	.....	10 million rubles	T.A. to 31 Dec. 1954
Denmark	.....	p.m.	T.A. to 30 June 1954
Sweden	.....	8 million kroner	T.A. to 31 Dec. 1954

USSR IMPORT COMMITMENTS (Cont'd)

<u>EXPORTER</u>	<u>PRODUCT</u>	<u>QUANTITY OR VALUE</u>	<u>COMMITMENT AND EXPIRATION</u>
<i>Butter, Lard, and Cheese</i>			
Denmark	butter	10,000 tons	T.A. to 30 June 1954
Denmark	butter	7,000 tons	1953-1954 contracts
Netherlands	butter	13,000 tons	1953 contracts
Sweden	butter	5,000 tons	T.A. to 31 Dec. 1954
Australia	butter	2,000 tons	1953 contract
New Zealand	butter	3,000 tons	1953 contract
Uruguay	butter	300 tons	1953 contract
Denmark	lard	4,000 tons	T.A. to 30 June 1954
Argentina	lard	1,500 tons	T.A. to 5 Aug. 1954
Netherlands	cheese	1,750 tons	1953 contract
Argentina	cheese	3,000 tons	T.A. to 5 Aug. 1954
<i>Fish</i>			
Belgium	herring	5,000 tons	T.A. to 31 Dec. 1954
Denmark	herring	8,000 tons	T.A. to 30 June 1954
Iceland	herring	13,000 tons	T.A. to 1 Aug. 1954
Iceland	herring	5,000 tons	1953 contract
Iceland	frozen fish	21,000 tons	T.A. to 1 Aug. 1954
Norway	herring	56,000 tons	T.A. to 31 Dec. 1954
Netherlands	herring	18,500-19,000 tons	1953 contracts
Sweden	herring	2,000 tons	T.A. to 31 Dec. 1954
UK	herring	18,000 tons	1953 contract
<i>Meat</i>			
Denmark	beef	9,650 tons	1953 contract
Denmark	pork	6,000 tons	T.A. to 30 June 1954
Netherlands	meat	5,000 tons	1953 contract
Argentina	preserved meat	5,000 tons	T.A. to 5 Aug. 1954
Argentina	pork	3,000 tons	T.A. to 5 Aug. 1954
Argentina	mutton	5,000 tons	T.A. to 5 Aug. 1954
Uruguay	meat	3,000 tons	1953 contract
Union of South Africa	meat	1,200 tons	1953 contract
New Zealand	meat	\$1,500	1953 contract
Australia	meat	(not reported)	.....
<i>Textiles and Fibers</i>			
Belgium	rayon fiber	5,000 tons	T.A. to 31 Dec. 1954
Belgium	artificial silk yarn	1,800 tons	T.A. to 31 Dec. 1954
Belgium	wool	6 million rubles	T.A. to 31 Dec. 1954
Belgium	woolen materials	1 million rubles	T.A. to 31 Dec. 1954
Belgium	hosiery	1 million rubles	T.A. to 31 Dec. 1954

USSR IMPORT COMMITMENTS (Cont'd)

<u>EXPORTER</u>	<u>PRODUCT</u>	<u>QUANTITY OR VALUE</u>	<u>COMMITMENT AND EXPIRATION</u>
<i>Textiles and Fibers (continued)</i>			
France	artificial silk yarn	2,000 tons	T.A. to 30 June 1954
France	artificial silk cloth	2 million meters	T.A. to 30 June 1954
France	wool cloth	800,000 meters	T.A. to 30 June 1954
Greece	cotton	1,000 tons	T.A. to 28 July 1954
Italy	cotton cloth	1,000 tons	T.A. to 26 Oct. 1954
Italy	rayon	2,000 tons	T.A. to 26 Oct. 1954
Italy	artificial fiber cloth	1 million meters	T.A. to 26 Oct. 1954
Netherlands	woolens	500,000 meters	contract
Netherlands	rayon	500,000 meters	contract
Norway	rayon fiber	1,000 tons	T.A. to 31 Dec. 1954
UK	textiles	\$1.4 million	1954 contract
Argentina	wool	20,000 tons	T.A. to 5 Aug. 1954
Iran	cotton, wool	(not reported)	T.A. to 31 Mar. 1954
Afghanistan	cotton, wool	(not reported)	T.A. to 30 June 1954
Uruguay	wool	(not reported)	1953 contracts
Australia	wool	(not reported)	1953 contracts
New Zealand	wool	(not reported)	1953 contracts
<i>Aluminum</i>			
Norway	aluminum	2,000 tons	T.A. to 31 Dec. 1954
<i>Lead</i>			
Belgium	lead	2,000 tons	T.A. to 31 Dec. 1954
Belgium	sheet lead	2,000 tons	T.A. to 31 Dec. 1954
France	lead	3,000 tons	T.A. to 30 June 1954
Iran	lead and zinc ore	(not reported)	T.A. to 31 Mar. 1954

^aShips often require more than a year for construction, so that delivery will come after the expiration date of trade agreement under which commitments are made.

^bThese Italian commitments were made at the time when the current annual agreement expiring 26 October 1954 was signed, but they fall under the long-term rather than the annual agreement.

^cA number of different kinds of ships for the USSR are under construction in Dutch shipyards, some under a long-term 1948 agreement and others outside it. There is no current annual agreement; it is not clear what new commitments were made in 1953.

SCHEDULE III

CURRENT USSR TRADE AGREEMENTS WITH NON-COMMUNIST COUNTRIES

<u>COUNTRY AND DURATION</u>	<u>ESTIMATED VALUE OF LAST AGREEMENT</u>	<u>1952 TRADE TURNOVER</u>	<u>REMARKS</u>
<i>Belgium</i> year 1954	\$140 million	\$26.4 million	Second protocol to long-term agreement of 18 Feb. 1948; last protocol expired 1 May 1951
<i>Denmark</i> 1 July 1953- 30 June 1954	\$42 million	\$23.6 million	Renewal of noncommodity provision of trade agreement of 8 July 1946; last renewal expired 8 July 1950
<i>Finland</i> year 1954	\$241.3 million	\$236.6 million	Protocol to trade agreement of 13 June 1950. First proposed decrease since war in level of trade
<i>Finland</i> 10 years from 6 Feb. 1954	Soviet loan of \$10 million at 2.5% interest		Finns can obtain non-Bloc currencies
<i>France</i> 3 years from 1 July 1953	\$52.9 million (first year's quotas)	\$24.5 million	First postwar trade agreement
<i>Greece</i> 28 July 1953- 28 July 1954	\$20 million (may be exaggerated)	\$20,000	First postwar trade agreement
<i>Iceland</i> 1 August 1953- 1 August 1955	\$20 million	0	First trade agreement since 21 June 1947 (date of signature)
<i>Italy</i> 27 October 1953- 26 October 1954	no estimate	\$54 million	Renews 1952 protocol without change; capital goods for USSR under 1948 trade agreement agreed on at same time
<i>Norway</i> year 1954	\$29 million	\$21.7 million	Decreased Norwegian aluminum quota, increased Soviet manganese and chrome quotas

CURRENT USSR TRADE AGREEMENTS WITH NON-COMMUNIST COUNTRIES (Cont'd)

<u>COUNTRY AND DURATION</u>	<u>ESTIMATED VALUE OF LAST AGREEMENT</u>	<u>1952 TRADE TURNOVER</u>	<u>REMARKS</u>
<i>Sweden</i> year 1954	\$60-70 million	\$64.5 million	Projected increase in trade after 1953 decrease
<i>Egypt</i>	.....	.....	Payments agreement signed 18 August 1953; trade agreement may be signed soon, would be first postwar
<i>Iran</i> Unconfirmed report that 1954 trade agreement now signed	\$110 million in 1953 trade agreement	\$45 million	USSR probably became Iran's largest trade partner in 1953; no word on value of 1954 trade agreement
<i>Afghanistan</i> 1 July 1953-30 June 1954 (not confirmed)	Trade agreement value and 1952 trade not reported	.....	Little is known of this trade agreement except a list of products; may not have definite quotas
<i>Afghanistan</i> 8 years from 27 January 1954	Soviet loan of \$3.5 million at 3.5% interest	.....	Loan for construction of 2 wheat warehouses, 1 flour mill, 1 bakery in Afghanistan using Soviet materials and technicians
<i>India</i> 5 years from 2 December 1953	No definite quotas	\$9 million	Trade agreement without quotas signed after failure to conclude barter agreement in 1953. Vague offer of Soviet technical aid formally accepted in exchange of letters
<i>Argentina</i> 5 August 1953-4 August 1954	\$150 million	\$6,000	Includes Soviet credit of \$30 million for capital goods purchases
<i>Uruguay</i> Annual; date unknown	no quotas	0	"Bankers agreement;" lists products without quotas