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BRIEFING TO THE STATE DEPARTMENT POLICY PLANNING STAFF

Bloc Economic Penetration

I. How might these capabilities--described by Mr. G.--be employed in the cold war?

II. Outlines of the Economic Offensive

A. Chart covering credits

1. Drawings have been small--\$700 + m. out of \$2 B.
2. Focus on Egypt, Syria, Yemen, Afghanistan, India, Indonesia, and Yugoslavia
3. Arms--over 500 million dollars--favorable prices
4. Aswan Dam, 100 million; Argentina, 100 million

B. Trade

1. Concentration on the Middle East and Southeast Asia--same politically vulnerable countries
2. Roughly double since 1957. Dependence on Bloc trade -- Afghan., 40%; Egypt, 36%; Iceland, 33%; Syria, 12% and growing

C. Technicians

1. Similar geographic focus to trade and aid--sizable increase over 1956--1,100 military
2. Over 2,000 students and military trainees to the Bloc--

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CIA participants in briefing:

DAD/RR

Chief, D/A

0/DD/I

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over 700 Indians training in Soviet steel works--these
obviously minimum figures

3. Trained in language and customs--noses clean

D. Other Activities--trade fairs, commercial advertising,
trade missions, conducted tours of the Bloc industrial
installations

III. Characteristics of the Economic Offensive

A. Generally speaking, program characterized by:

1. Focus on politically vulnerable areas and exploitation of local conflicts through arms shipments
2. Close integration of economic moves with other instruments of foreign policy
3. Brief periods of negotiation, flexibility in meeting demands, and, where necessary, prompt delivery
4. Integration of aid and technical assistance offers with arrangements to meet principal import needs and above all offers to take exportable surpluses--fish from Iceland, rubber from Ceylon, cotton from Egypt
5. Willingness to pave streets of Kabul--impact projects
6. Flexibility in correcting sources of dissatisfaction
7. Attractive trade and aid terms--2 1/2%--12 years--often repayment after the project in operation

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8. Propaganda value of "no strings" impression (Yugo exception)--not tied to military pacts
9. Weakened suspicion that Bloc espionage and subversive activity are associated with Bloc trade and aid--representatives and technicians stick to knitting--some exceptions (Bank of China)

B. Question of capabilities

1. Credits, not grants--time preference
2. Repayment will often be in commodities involving high cost production within the Bloc--cotton, wool, meat
3. Deliveries (drawings small percentage of GNP)
 - a. Exports spread over number of sectors of economy--(i. e., have not attempted to export several steel mills)
4. In summary--within fairly broad limits--have capability to do what political opportunity dictates. Mistake to look for solace in limited Bloc capabilities.

C. Future Elements of the Bloc Economic Offensive

1. We can expect an intensification of this offensive as new political opportunities appear--particularly in Latin America and Africa
2. Can look for more emphasis on the use of technicians--supported by growing educational program for engineers

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and technicians and recent increases in the number of Bloc technicians in the underdeveloped countries in the past half-year

3. Bloc will have problems as program becomes larger and more complex, particularly will have problem of "dropping the other shoe." It is one thing to reduce Western influence; it's another thing to achieve a measure of Soviet domination. So far, for example, not successful in helping the Communist Party in many places--opposition of Nehru, Nasser, and Frondizi. May attempt to gain a more dominant position through subtle manipulation of trade and credits in future. This very tricky and could redound to Soviet disadvantage throughout the area.

IV. Competition and "Dumping"

- A. As another measure in the cold war, many have suggested that the Soviets will intensify their so-called "dumping" activity. We believe there are many mistaken notions about Soviet efforts to disrupt Western markets (tin, aluminum, asbestos, wood pulp). History of Soviet pricing in international commodity markets indicates they price according to market situation, e. g., in sellers' market, have sold aluminum above market price.

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B. Do this to acquire foreign exchange to buy Western goods.

Have had foreign exchange shortage as reflected by their sales of gold over the past few years.

C. Essentially Soviets have exported items which are:

1. Surplus to planned need; or
2. Items with relatively low production costs.

D. In looking at the future, our concern should probably be more over Soviet competition than dumping.

1. Generally speaking, when the Soviets have sold below Western prices recently, they have sold either in commodity markets characterized by limited competition and artificially high prices or in markets where they have a relative cost advantage.
2. Every evidence that this competition will increase, however gradually, in the future, perhaps to detriment of trading nations which are allies of the West.

V. Selling the Soviet System

As a final point, we believe the Bloc will use its economic capabilities to help sell their politico-economic system. They are doing this through propaganda associated with (a) the rapid economic development of the USSR and Communist China, and (b) through the economic offensive. In addition to using regular propaganda and information media, the Soviets

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are pressing this effort through (a) training within the Bloc, (b) conducted tours around the Soviet economy, and (c) the export of the Soviet planners and teachers to assist these countries in the direction of their economic activity.

It is clear from the pronouncements of prominent persons in the underdeveloped countries that this is having effect; how much, we can't say, but this is an arena where we can expect more intensive activity on the part of the Bloc.

In summary, we can look for the Soviets to use their economic capabilities in the cold war to:

- (a) Intensify the economic offensive;
- (b) To gradually increase trade competition with the West; and
- (c) To sell the Soviet system.

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