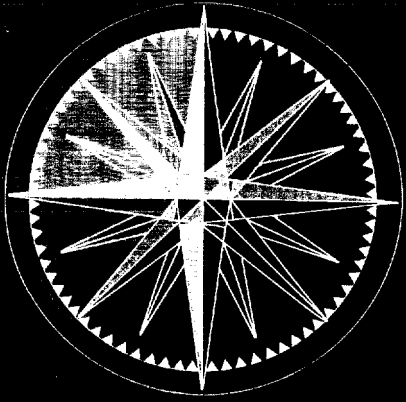


SECRET



Release 2006/11/08 : CIA-RDP79-00927A004200080002-8

25 October 1963

OCI No. 0303/63A

Copy No. 76

# SPECIAL REPORT

SOVIET FOREIGN ECONOMIC PROGRAMS

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF RESEARCH AND REPORTS

MORI/CDF Pages 2-9

NO FOREIGN DISSEM.

SECRET

GROUP 1 Excluded from automatic  
downgrading and declassification

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

#### DISSEMINATION CONTROLS

This document **MUST NOT BE RELEASED TO FOREIGN GOVERNMENTS**. If marked with specific dissemination controls in accordance with the provisions of DCID 1/7, the document must be handled within the framework of the limitation so imposed.

**SECRET**

25 October 1963

**SOVIET FOREIGN ECONOMIC PROGRAMS**

The Soviet economic offensive of the past decade has been more successful in establishing a Soviet presence throughout the free world than in significantly adding to Soviet prestige. It appears that the USSR now is more realistically assessing the impact of aid and trade and their contribution to long-run policy goals. As a result there are changes in Soviet tactics and techniques. The USSR's competition with the West remains not only a contest for influence in the underdeveloped areas but also a persistent effort to match Western industry in productive capacity. Current economic problems within the USSR, however, complicate this latter goal and require increasing Soviet attention.

Soviet Foreign Aid

Despite these domestic economic problems, the USSR continues its relatively limited-scale foreign aid program. Its aid commitments are up again this year--to about \$205 million--and its deliveries under existing programs--which will remain a drain on the Soviet economy--are expected to surpass last year's \$288 million. Credit commitments had fallen from the peak year of 1959 when \$850 million was extended--about half for India's development plan--to a low of \$77 million last year. The aberrations recently evident in Soviet aid extensions relate in part to the lack of simple impact projects and the outstanding balance of more than \$2 billion in undrawn credits.

Experience derived from previous aid operations which have sobered Soviet views as to costs and returns, new pressing internal economic considerations, and requirements to support the

floundering Cuban economy currently complicate Soviet foreign economic moves.

The extension of economic aid programs has become a more studied process. The USSR now is less likely to pass out \$100-million credits for their immediate political impact without some attention to longer run considerations. Where exploitable circumstances are presented, as in Algeria recently, the USSR still moves quickly. However, a large Soviet mission spent nearly a month surveying the Algerian economy before extending a \$100-million credit. In general, Moscow appears to be avoiding aid commitments which might saddle it with responsibility for the multiplicity of problems which would arise from underwriting the economy of an underdeveloped country.

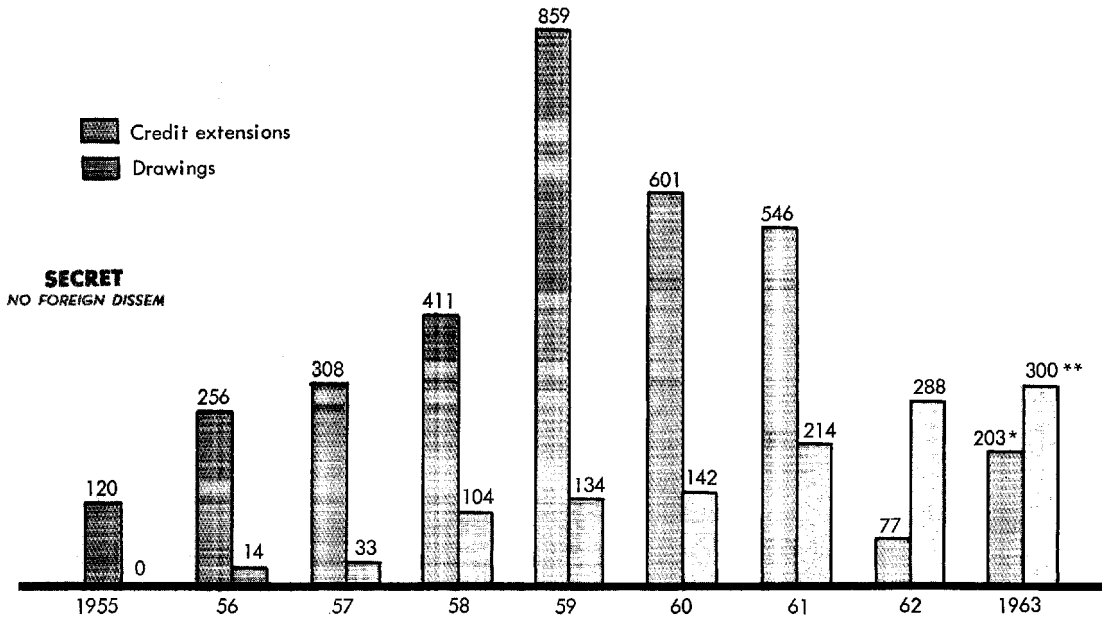
When the USSR initiated its aid program in 1954 its lack of contact with independent

**SECRET**

**SECRET**

**SOVIET FOREIGN AID TO NON-COMMUNIST COUNTRIES**

(MILLION US DOLLARS)



**SECRET**  
NO FOREIGN DISSEM

6310 21 3B

\* as of 24 Oct 1963  
\*\* estimate

non-Communist countries led it to hope that it could develop a meaningful attachment through the extension of aid. Subsequent experience has shown the USSR that such is not the case. Even Cuba, almost completely dependent on Moscow for assistance, does not subscribe fully to Soviet policies.

However, the USSR, once it embarked on a foreign aid program, found it was desirable to continue. Moscow appears to accept the limited leverage which can be derived from foreign aid and to accept rebuffs

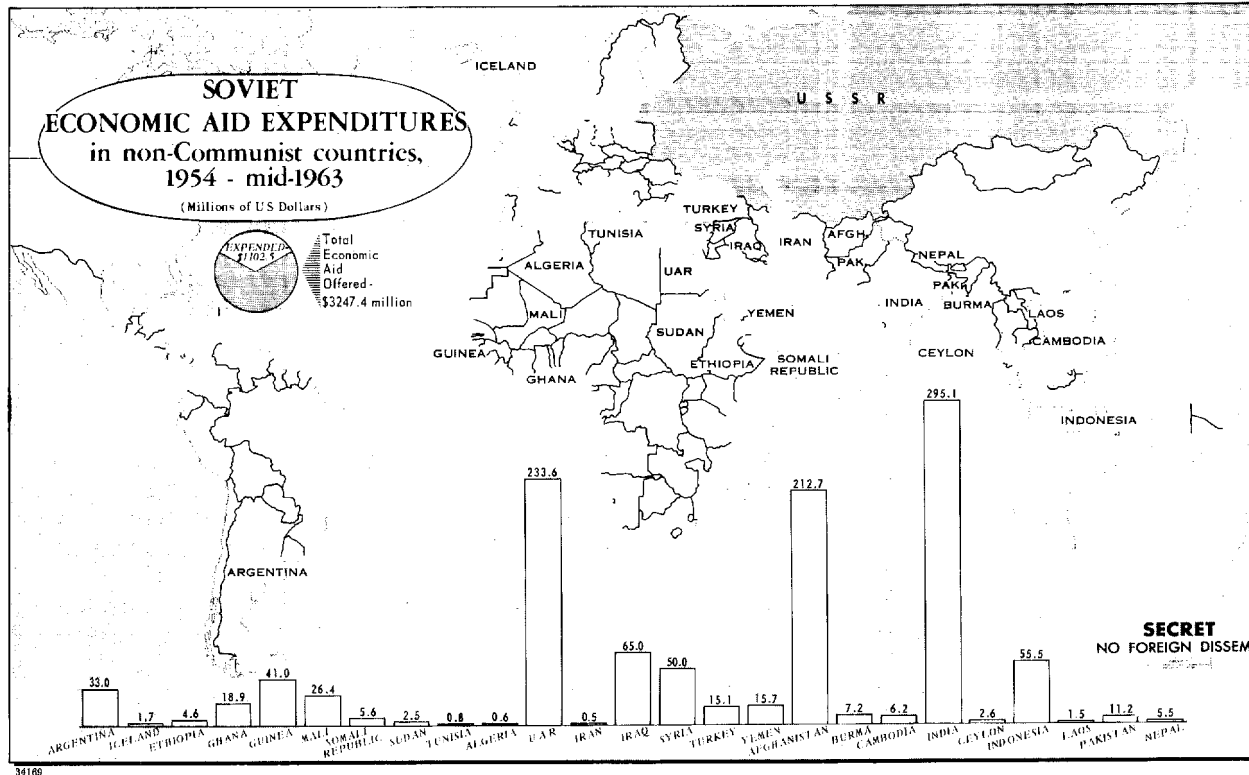
from time to time as part of the game.

As the Soviets have discovered the limitations of their foreign aid, so have the underdeveloped countries. Most have found that there is no particular mystique to Soviet aid, that it, like all external governmental aid, does not of itself alleviate all economic pressures or assure meaningful economic progress.

The USSR finds only limited opportunity for the blanket offer that formed the break-through

**SECRET**

**SECRET**



for its early aid program. Most underdeveloped countries now seek better designed aid offers. Many of them are so lacking in technical qualifications that the USSR must commit increasing numbers of a wide range of trained Soviet personnel in addition to financial or material aid. The USSR, to avoid tarnishing its reputation in Africa, reluctantly agreed to assume full responsibility for operation of its aid program in Guinea when it became clear that Guineans were unable to administer the program as they should.

The backlog of unused credits which measure the future burden to be placed on the So-

viet economy is largely due to failures on the part of the underdeveloped countries rather than the USSR. A case in point is Indonesia, where there is relative indifference to economic growth. Of the \$370 million extended from 1956 to 1960, only \$56 million has been drawn. Experience in countries such as Indonesia, where political frictions and indifference exacerbate a deteriorating economy, presumably has led the USSR to avoid becoming involved in more countries where the prospect for economic improvement is dim despite relatively major aid injections. This probably explains why Moscow has failed to become more involved in

**SECRET**

**SECRET**

Brazil, despite exploitable political circumstances there. In some cases recently the USSR has discouraged applications for aid by indicating that only medium-term credits at relatively high rates of interest are available.

Moscow has discovered that the rewards of foreign military aid tend to be longer lasting than those from economic assistance. Economic progress in underdeveloped areas may be frustrated by many factors--rapidly expanding populations, uncertain world commodity markets, weather. Military development, by contrast, is relatively easier to achieve and has greater impact. Nationalism prevalent in all underdeveloped countries, which see threats to their existence from all sides, requires the creation of a military establishment. The surface-to-air missile site now has become the status symbol. The USSR is aware that the military assume key roles in political developments in underdeveloped countries and is making considerable efforts in its military program to train at Soviet academies those middle-grade officers who will achieve positions of power in the next decade. Furthermore, shipments of military equipment abroad do not tax Soviet development as much as deliveries of production equipment.

Soviet Foreign Trade

The growth of Soviet trade from \$3.25 billion in 1950 to over \$13 billion in 1962 is a

symbol of growing maturity in the USSR. Not only has trade grown, but its composition has become more diverse and the number of trade partners has expanded. Soviet export capabilities are chiefly responsible for restricting the size of the market made available to the West. Exchanges with Communist countries probably will continue to account for over 70 percent of Soviet trade.

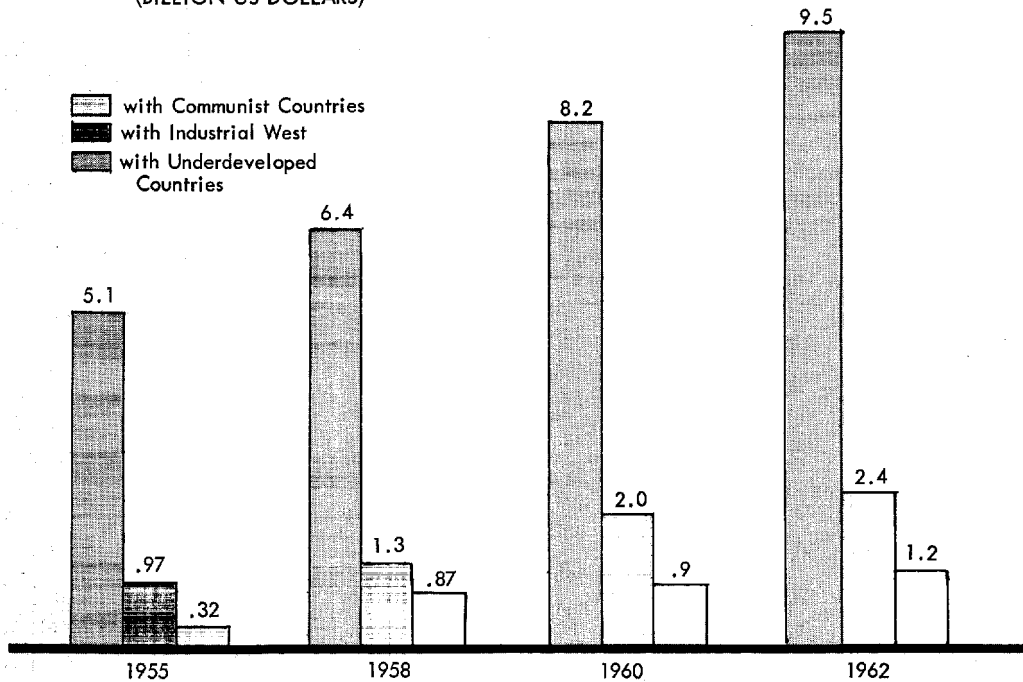
At the start of its offensive in the underdeveloped countries in 1954, the USSR developed some trade which was of dubious economic importance but had political impact. Those economic benefits which did accrue have been most significant in the moderate but continuing growth in this trade. Moscow appears satisfied with the limited dependence that arises from trade exchanges.

Deliveries of aid goods now account for about 50 percent of Soviet exports to the non-Communist underdeveloped countries. Most of the remaining trade with the underdeveloped countries is on a barter basis and will not be affected to any great degree by current Soviet efforts to step up trade with industrial countries.

Moscow has recently been reluctant to engage in new trade gambits in the underdeveloped countries, and has been indifferent to some approaches. This has been particularly noticeable in its trade dealings with Latin America. To satisfy

**SECRET****SOVIET FOREIGN TRADE**

(BILLION US DOLLARS)

**SECRET**

631021 3A

the efforts of a Chilean mission, Moscow agreed only to buy copper directly from Chile rather than through West Germany where the metal is processed. Although this establishes a new contact, it does not increase Chilean export earnings. Only minor trade was developed with British Guiana this year, but the USSR announced that it was "ample" when Jagan began to seek additional trade and assistance. This year's trade agreement with Brazil was concluded only after weeks of intense nego-

tiations, and it may founder if the USSR is unable to provide wheat--1.3 million tons during the next two years--or feels compelled to find a hard-currency buyer for the 5 million tons of oil promised in 1964-65.

Soviet attention now seems firmly riveted on expanding trade with the industrial countries to obtain equipment and technology to speed internal economic expansion. To procure such goods the USSR has tried to expand exports of oil and materials to the West or to

5

**SECRET**

**SECRET**

seek credits for significant plant purchases.

The current Soviet effort is to pit industrial suppliers against one another in an attempt to get the best possible credit terms. Now that the extension of sizable credits is established practice, Moscow is seeking to lengthen credit terms from five years to ten or twelve for its industrial purchases.

Despite the cash drain in the next year occasioned by the extraordinary need to import as much as \$1 billion worth of grain, there is no evidence that the USSR intends any serious modifications in its plan to buy advanced Western chemical and other industrial equipment. The appetites of Western manufacturers is whetted by continuing propaganda that the USSR seeks billions of dollars' worth of equipment.

The American Embassy in Moscow points out that Moscow may plan to place tentative orders with Western businessmen, who would then bring pressure on their governments to provide adequate financing.

Another effort to lengthen credit terms has arisen in the negotiation of the Soviet-Italian trade agreement. Here talks have been prolonged by the issue of the nonavailability of long-term credits to the USSR. A common policy on credits now is under discussion in Western Europe, and the USSR may be faced with a united front in its negotiation of major trade pacts with West Germany and the UK next year. Moscow is certain, however, to garner support from industrialists in Western Europe and Japan who have become convinced that a vast new market is opening up.

In this trade campaign the USSR has attracted Western officials to Moscow. Leading political, trade, and financial personalities have been invited and are visiting Moscow. British, Canadian, West German, and Japanese figures have recently visited the USSR, and France's finance minister is scheduled to go in January. There seems little question that Moscow will step up its purchases of chemical plant equipment, but it apparently will bargain hard for the best possible terms.  
(SECRET NO FOREIGN DISSEM)

\* \* \*

**SECRET**



Approved For Release 2006/11/08 : CIA-RDP79-00927A004200080002-8

**SECRET**

Approved For Release 2006/11/08 : CIA-RDP79-00927A004200080002-8

**SECRET**