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I. Bloc Foreign Aid Policies

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[redacted]

[redacted] The Soviet Bloc has two general policies in these areas. One is the official, or overt policy, which is to encourage opposition to imperialism and colonialism. The second, or covert policy is to support pro-Communist elements in these countries. As long as there seems to be no basis for expecting a really pro-Communist force to come to power, Khrushchev must co-exist with the existing anti-Western national bourgeois governments. Hence, the Bloc continues to provide them with developmental aid. At the same time, Bloc leaders believe that many of the current leaders are out of touch with their peoples, that they will not indefinitely remain in power. (The Hungarian ambassador to Ghana made a bet with Source that Nkrumah will last less than a year.) So, while token quantities of assistance continue to go to such governments, the Bloc is giving more attention to its longer-run aims and to the future ruling classes in these countries. It is felt that more lasting results can be achieved by subversive activities, including bribes to middle-level government and other officials, and to bringing people from the less-developed nations to the Soviet Bloc for academic and military training.

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[redacted] disagreement between Khrushchev and Peking over policies to be followed toward national bourgeois regimes [redacted]

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[redacted] The dispute is [redacted] basic. In regard to the less-developed countries [redacted] the Chinese maintain that the USSR should leave the Asian countries alone, as a sort of Chinese preserve. [redacted] Chinese military officers and other Peking officials state this openly. The Chinese appear to be less interested in Africa and other areas largely because of economic limitations.

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[redacted] conflicts within the CPSU over policies toward the less-developed areas [redacted]

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[redacted] There is opposition, but [redacted] it is temporary. It reflects temporary economic difficulties ... in Hungary, the government is engaged in a costly program to switch the remaining private agriculture to socialized agriculture. There is much feeling in the Party hierarchy that scarce skills and equipment should be used at home.

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[redacted] the foreign aid programs of the Bloc are quite small relative to their total economic activity ... probably less than 1 percent of gross national product, and only a negligible share of industrial production.

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[redacted] Soviet leaders feel it is a significant cost. In the Bloc, there is not the unused productive capacity which you have in the West. In the USA, for example, if you wanted to increase steel output, you have the unused capacity already in existence; you could increase it almost

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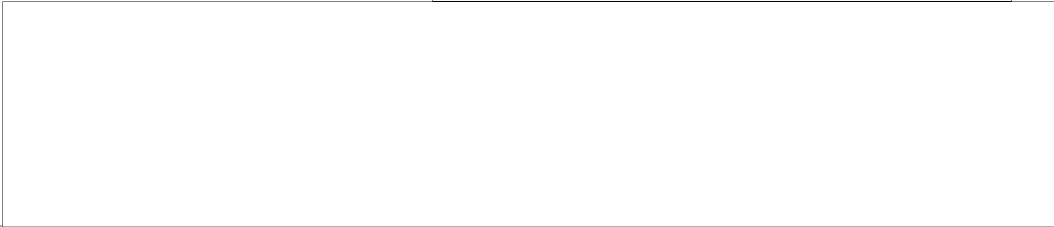


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overnight. In the Bloc, there are no such unused capacities ... it is a strain to meet production goals. Bloc planners, therefore, object to foreign aid, because it cuts into their plans for increasing domestic investments. Bloc leaders also recognize that Bloc aid capabilities are limited, that they can't begin to compete seriously with Western aid programs. General opinion among Hungarian and other Bloc leaders is to give technical aid as training personnel, etc. rather than investment aid.

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any such aid had to be well-founded, on both political and economic grounds.

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II. Current Bloc Trade and Aid in Underdeveloped Areas

A. Economic Assistance

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extensions of developmental aid will be lower in 1963 and 1964. This is due primarily to economic reorganizations within the Bloc. Intra-Bloc cooperation is being reorganized; agriculture in European Satellites is being reorganized; a large effort is being made to build up the Bloc's chemical industry; the costs of increased military production are now being felt within the Bloc. These factors are reflected in the Bloc's aid to the underdeveloped countries. Moreover, economic aid poses a special problem. The Bloc cannot compete with the industrial West in the volume of aid extended. In two recent CEMA meetings, March and June 1962 (in the latter it was at least planned to be discussed) it was resolved that aid to the underdeveloped countries be given through the UN and other international forums, with the USSR providing a large technical staff but little capital equipment.

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It serves both political and economic aims, although sometimes, of course, the economic are subordinated to the political. It is hoped, both by Soviet and Satellite officials, that the less-developed countries will sooner or later increase their exports of useful products, such as exports of Goa's iron by India. Although there is some sentiment in the Bloc that these countries will eventually be competitive with the exports of the Bloc, others maintain that these areas provide an alternative market for Bloc exports (an alternative to the Common Market). This more traditional view probably prevails; namely, that some of these

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countries, like Ghana, will be in the socialist camp within 10 or 15 years, and will then be a part of the world socialist market; then its aluminum, lumber, etc., will go to the rest of the Bloc, rather than to Europe, and the trade will increase accordingly.

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[redacted]

Bloc developmental aid projects [redacted]

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[redacted] are carefully selected. The Bloc declines to participate in a project which it believes to be economically ridiculous. Also, the Bloc looks for projects which will help consolidate lasting economic ties with the recipient country. For example, Ghana asked for assistance in several civil engineering projects, including a bridge and a railroad, which Hungary declined, because they would lead to no greater Ghanaian dependence on the Bloc. Hungary did, however, agree to deliver an incandescent light factory and penicillin plant, because Ghana will have to buy from Hungary spare parts and materials for these plants for the next 10-15 years.

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[redacted] an example of Bloc difficulties in implementing foreign aid projects [redacted]

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[redacted] occurred in Indonesia, where the USSR, Poland, and Hungary were to cooperate in providing port equipment and ships. The USSR would ship cranes, etc.; Poland, tankers and medium cargo ships; Hungary, small cargo ships. About 70% of this project, [redacted] was never implemented. The reasons were several:

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First, Hungary and Poland found they had insufficient free capacity in their shipyards; when the agreement was signed, in 1959 [redacted] there was considerable idle capacity in Hungarian and Polish shipyards;

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Second, because of domestic economic needs Bloc planners felt they could no longer afford to fulfill such an agreement -- [redacted] it was for \$30 million with deliveries to be made through 1964 -- particularly because world prices for ships had since risen, so that some of the equipment could be sold at higher prices elsewhere.

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It was therefore decided to substitute telecommunications equipment for the port equipment, and the total would be of considerably less value...something like \$2-3 million. [redacted]

[redacted]

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B. Bloc Technical Assistance

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[redacted]

[redacted] They send the best they have; that is, those who are the most capable in their fields and who are politically the most reliable.

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Technicians are viewed as Bloc ambassadors to these countries. Generally there is no shortage of engineers in the Bloc [redacted]...one 50X1-HUM special organization in the foreign trade ministry of Hungary was just organized several months ago with the function of assigning specialists abroad and signing long-term contracts for their services.² This is in accord with the preference of Bloc planners for technical assistance rather than capital equipment experts. 50X1-HUM
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[redacted] salaries [redacted] Bloc technicians receive [redacted] 50X1-HUM [redacted] depend on whether they have their family accompany them overseas or not. If the family stays home, they receive their regular salary, all forints, plus some \$250-400 per month per diem, plus free medical care and free housing overseas. If the family goes along, they get only 10-20% of their home salary, but the per diem is 20-40% greater than that received by a man unaccompanied by his family, and free medical care and housing are still provided. 50X1-HUM

III. The Bloc's Aid Program in Ghana

1. Ghana is a special case, in that Hungarian economic penetration has been particularly successful there. The Hungarian economist, Jozsef Bognar, is heading some 14 planning commissions which have been commissioned to work out a 20-year development plan for Ghana. These commissions involve around 18 Hungarian specialists; 4-5 economists, some statisticians and accountants, and the rest industrial specialists. The plan is to be submitted by the end of 1962. Although Bognar is under instructions to draw up the plan which seems most feasible, economically speaking, for Ghana, one of the assumptions underlying his work is close Bloc-Ghanaian economic cooperation in the future. 50X1-HUM

2. [redacted] Hungary was to supply Ghana with industrial equipment valued at some 5-6 million Pounds Sterling over the 1961-64 period, of which about 860,000 Pounds has so far been signed into contracts, including:

- a. an incandescent light and bulb factory - 300-400,000 Pounds;
- b. an antibiotics plant - 100-150,000 Pounds;
- c. a factory to manufacture structural cable, value unknown.

In addition, two other transactions have recently come under discussion: a bauxite processing plant, and port cranes and equipment. Hungary refused civil engineering works, railroad construction because such projects would not lead to closer future ties with Hungary ... spare parts, trade, etc. 50X1-HUM

3. [redacted] implementation of projects in Ghana would be better assured now, because in some cases Ghana has given its guarantee that it would sequester the funds needed to cover the local currency costs -- amounting to 45 percent of the total costs -- of Hungarian projects. This measure was called for by previous experience of Hungary in Ghana, where local funds were not forthcoming for Hungarian aid projects.

4. Bloc countries are trying to get Ghana to agree to establish joint Bloc-Ghanaian enterprises to export Ghana's products, like cocoa ... Ghana's officials are so far unwilling to do this, as they fear it would mean the loss of their chief sources of foreign exchange. Bloc planners have also suggested that cooperatives (kolkhozy) be established

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in Ghana to produce cocoa on a large scale, but the tribal leaders are opposed to this, as it would threaten their control over their peoples.

5. In Ghana a central party school has been established for young Ghanaians. It is a secondary school in which economics, political economy, and economic planning are taught -- all by teachers from the Bloc. After a one or two-year course, the students are employed by the Ghanaian government.

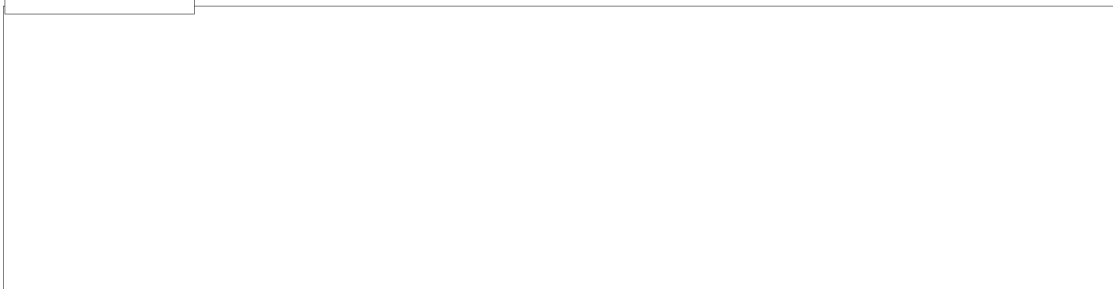
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Such training, both in the underdeveloped countries and in the Bloc, is considered an extremely effective means of penetrating these countries.

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Comments:

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2. The organization referred to here is probably the Hungarian foreign trade company TESCO (Technical and Scientific Cooperation) which was established in early 1962 to handle scientific-technical cooperation and exchanges with Bloc countries and underdeveloped countries.

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