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EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON 25, D. C.

Awd for
JUL 15 1959

My dear Mr. Dulles:

We would appreciate very much your views on the enclosed draft Bureau of the Budget staff analysis of Free-World and Sino-Soviet Economic Aid Activity. Certain of the data contained in the report are based on information prepared in your agency.

We should very much like to receive such comments as you might have by August 1, 1959.

Staff of the Bureau of the Budget are available for any consultation deemed desirable.

Copies of the tables are also being sent to The Acting Secretary of State, The Secretary of the Treasury, The Acting Secretary of Commerce, the Special Assistant to the President for National Security Affairs, and the Chairman of the Council on Foreign Economic Policy.

Sincerely yours,

Maurice H. Stans

Director

Honorable Allen W. Dulles
Director, Central Intelligence
Agency
Washington 25, D. C.

Enclosures

On file OMB release instructions
apply.

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General Conclusions of Comparison of Sino-Soviet Bloc and
Free World Economic Aid Activities

The material contained in this study covers the years 1954 through 1958 and was derived from documents published by official agencies, U. S. and international. A few of the figures have been estimated or interpolated, and have been so indicated. The magnitudes of the totals have not been affected by these methods. The principal conclusions of the study are:

1. On a world-wide basis, Soviet economic aid activity in the past five years has been dwarfed by U.S. activity, public and private. Activity by other free world countries is also much larger than the Bloc's.

2. Bloc activity is concentrated in a few countries. In Syria, Egypt, and Afghanistan, Bloc activity is much larger than all Free World programs, government and private, combined. Though Bloc expenditures in India appear to be large, they are much less than Free World aid. Bloc assistance to Yugoslavia had been large, but was cancelled about a year ago.

3. Through 1958, Bloc expenditures have been relatively high in the military program, relatively low in the economic program. However, on the basis of present commitments, expenditures on economic aid can be expected to rise rapidly while military expenditures will taper off. Total expenditures should reach an annual rate of one half billion dollars by 1960 or shortly thereafter. Even at this level Bloc aid would be only one-eighth of the current rate of the net outflow of resources from Free World countries. Thus, the problems raised by Bloc aid programs do not appear to be a function of amount, but of selectivity, propaganda activities, method of administration, and similar matters.

4. In any comparison of technical and related personnel of the Soviet Bloc and U.S., the figures are overwhelmingly in favor of the U.S.

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EXPLANATION OF THE TABLES

These tables are a comparison of economic aid activity in the underdeveloped areas by the Sino-Soviet Bloc, the Free World, and the International Agencies for the years 1954 through 1958. Statistics on the Free World include Government programs, private investment and an estimate of private donations. The International agencies can be considered essentially an activity of the Free World inasmuch as the Bloc supports only one of them, the United Nations Technical Assistance agency. There are seven tables in all:

- I - Summary of Expenditures by the Free World and Sino-Soviet Bloc on Economic Assistance to the Underdeveloped areas, 1954-1958
- IIA - Regional Comparison of Net Expenditures by Sino-Soviet Bloc and United States Government on Economic Aid, 1954-1958
- IIIB - Unexpended Balances and Unused Credits by Region, 1958
- III - Commitments of Sino-Soviet Bloc Assistance (Economic and Military) by Source, 1954-1958
- IV - Detail of Sino-Soviet Bloc Aid, 1954-1958
- V - Free World Government Economic Aid Expenditures in Underdeveloped areas, 1954-1958
- VI - Free World Private Investment in Underdeveloped Areas, 1954-1958
- VII - Comparison of Technicians and Other Professionals in Underdeveloped Areas, 1958

The underdeveloped areas of the world are defined as the Middle East; Asia, except Japan; Africa, except the Union of South Africa; Latin America; and three countries in Europe, Portugal, Spain and Yugoslavia. Greece and Turkey are included as part of the Middle East.

The tables cover the past five years, 1954 through 1958, but the time period for each statistical series is not always the same. Figures for the Sino-Soviet countries, UN agencies, private donations and private investment are for the calendar year. Figures for governments are for the fiscal year of the government concerned, thus: USA, July 1-June 30; UK, April 1-March 31, etc. Government figures for comparable time periods are not available. However, the time differences involved make no appreciable effect on either the magnitudes of the totals or their trend.

Sino-Soviet Bloc

The figures for the Sino-Soviet Bloc, except repayments, have been taken from the Economic Intelligence Committee publication, "Sino-Soviet Bloc Economic Activity in the Underdeveloped Areas." Repayments have been estimated, on the basis of discussions with State.

point up the small amount of repayments of Sino-Soviet credits thus far. The official exchange rate of four rubles to the dollar has been used. While this rate represents an over-evaluation of the ruble insofar as internal Russian prices are concerned, in world trade, Russian export prices have almost always approximated world price levels. It is also known that the cost of several particular projects, such as the steel mill in India, is reasonable by Western standards.

Although some of the Sino-Soviet commitment figures include what are really barter trade agreements, the total of Sino-Soviet trade with Free World underdeveloped countries has not been covered in the presentations on Bloc economic activity. Comparisons of Bloc trade with Free World trade have not been included in these tables.

Almost the whole of Bloc assistance is in the form of loans. Of the total of \$2.4 billion, only \$98 million has been granted, and all of it in the economic program, as follows (figures in millions): Cambodia - \$34; Burma - \$30; Ceylon - \$16; Nepal - \$12; Egypt - \$5; and India - \$1. Communist China has made \$61 million of the grants, Russia, \$37 million.

Since December 31, 1958, the terminal date of the tables, the pattern of Bloc commitments has remained unchanged with one important exception, a commitment of \$137 million in economic aid to Iraq has been added to the military commitment of \$118 million, made in October, 1958.

Private Investment

In the area of private investment, figures for the United States are rather good, but for other countries they are incomplete. From 1954 to 1957, direct investment by other countries was \$3,640 million. Several hundred million dollars of portfolio investment are readily identifiable and so the figure on the table has been rounded up to \$4 billion. Figures for short and medium term investment by non-Americans are not available, but this type of investment is becoming increasingly important for the lesser-developed countries. West Germany is the leading supplier of these credits after the USA.

Of the \$4.5 billion of American private investment in the underdeveloped areas from 1954-1957, about \$1 billion represents the short-term financing of ordinary commercial transactions. Such financing frequently helps countries with temporary balance of payments troubles, but probably should not be considered as a development activity. It is worth noting that before and after World War I portfolio investment was the favorite form of long-term capital investment. Not until after WW II did direct investment become the common form of long-term investment, and not until three years ago was interest in portfolio investment renewed. Since 1956 portfolio investment by the U. S. has increased about three times over the level of the early 1950s. It has also been increasing, but more slowly, in Western Europe. (Only \$40 million of American private investment is covered by the Investment Guaranty Program.)

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Technical and Related Personnel

Figures on Free World personnel, except American, are not available. Hence, the table is limited to a comparison of the United States and the Bloc. For this country, employees of private companies are shown as well as Government personnel, inasmuch as both are required to make a true comparison between the United States and the Bloc. The figures in the "private" column are the total number of "principals" reported in the study on Americans 25X1 overseas.

There is no way of identifying the number of non-government persons engaged in activities of direct benefit to the country of residence. In many of the Latin American countries there are a number of self-employed professional people. There are many others in non-development commercial activities, such as the luxury trades or international passenger, shipping, and airline companies. Some are in the twilight zone. In spite of these reservations, it is probably not unreasonable to assume that at least three quarters of the number in any of the Latin American countries are associated with development-type activities.

In Africa, the Middle East, and Asia it can be assumed that virtually all Americans are engaged in activities of direct benefit to the country, except in Lebanon, where it can be assumed that the percentage so engaged is very small.

There is one general exception in all countries - missionaries wholly engaged in religious activities. These, however, are rather few, probably no more than a third of the approximately 27,000 American missionaries abroad, because much missionary activity today is of a public welfare sort - schools, hospitals and clinics, even agricultural technical assistance.

The personnel table is limited solely to persons engaged in economic activities. It is in no way a measure of the number of persons from either the Bloc or the Free World who are engaged in political, propaganda, and other non-economic activities.

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NOTE: ONLY THE SINO-SOVIET BLOC STATISTICS ARE SECRET. ALL OTHERS ARE UNCLASSIFIED.

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TABLE I
Summary of Expenditures by the Free World and Sino-Soviet Bloc on Economic Assistance to the Underdeveloped Areas, 1954-1958
(millions of dollars)

	1954 - 1957			1958			TOTAL			Unexpended Balances & unused credits ^{a/}
	Loans and Grants	Repayments of principal and interest	Net Expenditures	Loans and Grants	Repayments	Net Expenditures	Loans and Grants	Repayments	Net Expenditures	
Sino-Soviet Bloc ^{f/}	250	5	245	150	20	130	400	25	375	1,200
Free World - Public										
U.S.A.	6,976	699	6,277	2,173	256	1,917	9,149	955	8,194	3,557
Other Government ^{b/}	4,091	83	4,008	1,301	60	1,241	5,392	143	5,249	1,584 ^{d/}
IBRD and IFC	495	115	380	285	60	225	780	175	605	618 ^{d/}
Other UN Agencies ^{c/}	371	-	371	95	-	95	466	-	466	n.a. ^{d/}
Total	11,933	897	11,036	3,854	376	3,478	15,787	1,273	14,514	n.a.
Free World - Private Investment										
U.S.A.	5,650	5,466	184	1,800	1,800	0	7,450	7,266	184	
Other country	4,000	3,400	600	1,200	1,000	200	5,200	4,100	800	
Subtotal	9,650	8,866	784	3,000	2,800	200	12,650	11,366	984	
Private Donations ^{e/}	950	-	950	250	-	250	1,200	-	1,200	
Total	10,600	8,866	1,734	3,250	2,800	450	13,850	11,366	2,184	
Net effect on balance of payments, Free World	-	-	12,770	-	-	3,928	-	-	16,698	

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TABLE IIA Regional Comparison of Net Expenditures by Sino-Soviet Bloc and U. S. Government on Economic Aid, 1954-1958

	<u>Far East</u>	<u>Near East So. Asia</u>	<u>Africa</u>	<u>Latin America</u>	<u>Western Europe</u>	<u>Undistributed</u>	<u>Total</u>
<u>Sino-Soviet Bloc</u>	<u>80</u>	<u>182</u>	<u>0</u>	<u>3</u>	<u>134</u>	-	<u>399</u>
Less Repayments ^{a/}							-25
Net Total							<u>374</u>
<u>U.S. Government</u>	<u>4,187</u>	<u>2,038</u>	<u>114</u>	<u>795</u>	<u>1,061</u>		<u>8,194</u>
Mutual Security Program	3,814	1,127	62	224	490	-	5,717
X-M Bank: Gross	(82)	(64)	(29)	(826)	(29)	-	(1,030)
Less Repayments	<u>(34)</u>	<u>(56)</u>	<u>(13)</u>	<u>(507)</u>	<u>(25)</u>	-	<u>(635)</u>
Net	48	8	16	319	4	-	395
P.L. 480, Titles II & III	131	258	36	82	175	-	682
Title I	194	644	0	170	392	-	1,400

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TABLE III
Commitments of
Sino-Soviet Bloc Assistance (Economic and Military) by Source, 1954-1958
(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>Total</u>	<u>Economic</u>	<u>Military</u>
USSR.....	<u>5.8</u>	<u>115.5</u>	<u>542.7</u>	<u>245.5</u>	<u>702.2</u>	<u>1,611.7</u>	<u>1,254.0</u>	<u>357.7</u>
European Satellites.....	<u>5.0</u>	<u>223.3</u>	<u>119.3</u>	<u>21.4</u>	<u>279.9</u>	<u>648.9</u>	<u>227.0</u>	<u>421.9</u>
Czechoslovakia.....	5.0	214.6	90.1	16.4	82.7	408.8	100.9	307.9
Poland.....	-	-	23.2	-	155.5	178.7	64.7	114.0
East Germany.....	-	8.7	2.9	2.3	30.1	44.0	44.0	-
Bulgaria, Hungary, Rumania.....	-	-	3.1	2.7	11.6	17.4	17.4	-
Communist China.....	<u>-</u>	<u>-</u>	<u>55.4</u>	<u>20.0</u>	<u>43.6</u>	<u>119.0</u>	<u>119.0</u>	<u>-</u>
Total.....	10.8	338.8	717.4	286.9	1,025.7	2,379.6	1,600.0	779.6

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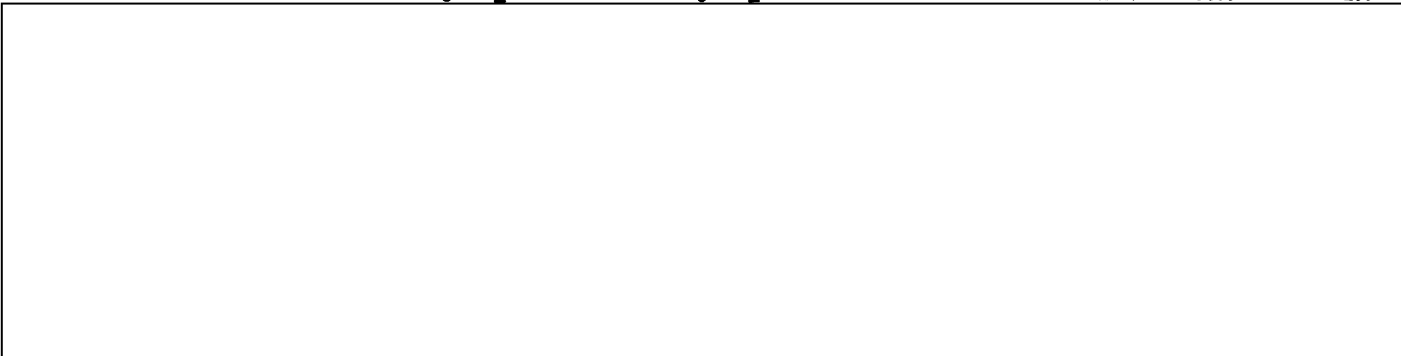
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TABLE VI Free World Private Investment in Underdeveloped Areas, 1954-1958 a/
(Millions of dollars)

A. U.S.A.	1954 - 1957						1958 (Est)				
	Direct		Total	Portfolio	Short-Term	Total	Remissions of Earnings	Net Effect	Investment	Remissions	Net Effect
	Oil	Other									
Latin America	(1470)	(1332)	2802	513	608	3923	3145	788	-	-	-
Asia, Middle East, Africa	(717)	(155)	872	305	258	1435	2321	-886	-	-	-
IBRD and IFC	-	-	-	292	-	292	-	292	-	-	-
	(2187)	(1487)	3674	1110	866	5650	5466	184	1800	1800	0

B. Other Countries, Direct Investment Only	1954 - 1957			1958 (Est)		
	Total Investment	Earnings Remitted	Net Result	Investment	Remissions	Net Effect
France	1760	1900	-140	-	-	-
United Kingdom	1400)			-	-	-
Germany	175)			-	-	-
Switzerland	170)	1300	580	-	-	-
Sweden	55)			-	-	-
Netherlands	35)			-	-	-
Other Countries	45)			-	-	-
	3640 b/	3200 b/	440	1200	1000	200

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MEMORANDUM FOR: Mr. Dulles:

A copy of this letter (and enclosures) has
already been sent to DD/I (ATTN:)
for comment and preparation of an appropriate
reply for your signature.

[Handwritten Signature]
AAB
20 July 59
(DATE)

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FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

(47)