

7 May 1958

SOVIET ECONOMIC PENETRATION

Soviet economic penetration program a new challenge to West, particularly to United States. "Peaceful coexistence", with emphasis on trade and development aid to underdeveloped countries part of more subtle Khrushchev policies.

Goals of international communism remain world domination. Soviet propaganda, however, pictures USSR as wanting peace, United States as wanting war. Khrushchev's remark, "To the slogan which says, 'let us arm', we reply with the slogan, 'let us trade.'"

In Soviet penetration of less developed countries, trade and subversion go together. However, Soviet Bloc aid of over \$2 billions in past three years not limited to countries where there is high probability of early acceptance of Communist doctrine.

Despite Nasser's repeated crackdowns on Communist elements in Egypt, and more recently within other nations, Soviets continue to deliver goods under \$175,000,000 development program signed last year. Current Nasser visit to Soviet Union could result in further assistance.

Same reduction in Communist influence is true in Syria since formation of United Arab Republic two months ago. However, USSR goes ahead with \$170,000,000 economic aid program and \$100,000,000 additional arms agreement.

Many other examples. Afghanistan, for instance, Yemen.

USSR has extended considerable assistance to other Bloc countries. Since early 1956 about \$1.3 billions in credits plus small amount in grants. This is in addition to Free World penetration program.

Small burden on USSR. Not ~~less~~ ^{more} than $\frac{1}{2}$ of 1% of GNP per year. When Soviet spokesmen declare they are willing to provide anything the underdeveloped countries request that is within the capability of the USSR, they are not necessarily making an empty gesture. Could double present size of foreign assistance program without serious strain.

Bloc aid offers made to Turkey; Iran far in excess of what has been accepted. In Africa, offers to the Sudan, Morocco, Tunisia and Lybia have not been accepted to date, despite internal pressure for economic development and a growing need for foreign assistance to carry out such programs. Only 16 Free World countries have accepted Bloc credits; 95% has gone to 9 countries. This is detailed in summary tabulation distributed to you.

Over 400 non-military students from underdeveloped countries now studying in the Bloc. USSR announced in the UN that it was willing to receive 1,000 students and trainees. Students now largely from Egypt, Syria, Indonesia, Sudan, Yemen. Each year, over 4,000 overseas Chinese go to Communist China to study.

Characteristics of Bloc Programs

A. Usually prescribed on an integrated basis:

1. Line of credit
2. Technical assistance and training
3. Increased trade opportunities.

Has great appeal, particularly if underdeveloped country is having difficulty in marketing its exportable products at adequate prices.

In contrast, US program more isolated. In particular, trade usually a matter outside scope of responsibilities of mutual security officers.

B. Almost entirely a credit program

1. Interest rates $2\frac{1}{2}\%$.
2. Repayment usually begins after project is in operation. Output of plant helps to pay for loan.
3. Amortization period 12 years.

US interest rates higher. However, Development Loan Fund repayment in 40 years, 30 years for Ex-Im. Bank, much longer terms than USSR.

C. Generally covers only Foreign Exchange Costs.

D. Usually related to Industrial Development

Sugar mills, cement plants, etc. Not for sanitation, sewage, housing, etc.

E. Independent of Military Pacts.

No free world underdeveloped country receiving bloc military or economic assistance is a member of a bloc military alliance. This practice disarms many.

USSR government well set up to wage economic and political warfare. No budgetary controls when it comes to diverting funds to particularly urgent national policies. Can move quickly when they sense an opportunity. Only Battle Act is battle against free enterprise.

Other part of Soviet program is increased trade, not only in underdeveloped countries, but in Western Europe. About 70 percent of USSR's increase in non-bloc trade in 1957 was with industrial nations of Western Europe.

Continued expansion expected. Agreement between Germany and USSR reached a few days ago calls for a doubling of trade by 1960.

Soviet capabilities to export petroleum and metals--aluminum, tin, zinc and ferro-alloys--is increasing. The USSR is already a supplier in a few traditional western metal markets. Over the years, the USSR may well become a major source of many such industrial necessities to Western Europe.

Their long-rung petroleum development plans, Khrushchev's 1972 goals, point up the possibilities of such a development.

The USSR plans to build, at an ice-free port in the Lithuanian SSR, a major oil depot which could supply the petroleum deficient countries of northern Europe expeditiously from the oil-rich Ural-Volga area. A large refinery is being built at Polotsk (300 miles east of the proposed depot) as are pipelines to Polotsk from the Ural-Volga region, but no plans have yet been announced for a pipeline to connect Polotsk to the new Baltic base. (See map)

Present petroleum demand in non-bloc northern Europe is about 85 million tons and is expected to increase to about 145 million by 1965. Production approaching the USSR's 350-400 goal for 1972 would permit it to supply a substantial part of this demand by 1965. The new depot could also serve north European bloc countries.

Soviet economic base, upon which they are developing their economic penetration program, is growing rapidly. By 1962, total Soviet output expected to be 50 percent of our own. Rate of growth about twice that of the U.S.

With Gross National Product of about \$170 billions, USSR now able to devote about as much to national policy purposes--defense, economic aid, etc. as is the United States. Does this by holding consumption at low level.

Fast rate of growth of producers goods provides base for a rising level of exports to underdeveloped areas. Output of machine tools, for example, now about double that of our own.

Means that trade and aid offensive is not a flash in the pan. Probably Soviets will increase their efforts, not diminish them. Peaceful coexistence more than a tactical maneuver. Trade and development program a long-term battleground area in itself.

As this challenge is based largely on economic and industrial growth of Soviet Union, it is one which very directly concerns business leaders of our country.

This is not a task for government alone. It is by our business leaders recognizing the problem, properly analyzing it, and seizing time by the forelock, that the challenge can be met.

6 May 1958

Sino-Soviet Bloc Credits and Grants and Non-Military Technicians
in Free World Underdeveloped Countries

The following data indicates the extent and distribution of Sino-Soviet Bloc credits and grants to Free World underdeveloped countries. In the period 1 January 1954 through 30 April 1958 the Sino-Soviet Bloc extended over \$2.0 billion in credits and grants, of which about \$400 million was for the purchase of arms. During 1957 an estimated 1,600 Bloc industrial, agricultural and other professional specialists were working in the underdeveloped countries.

Since 1955 the Soviet Bloc has undertaken approximately 140 industrial projects in the underdeveloped countries of the Free World. It is estimated that at least 30 percent of these projects have been completed and are currently in operation, 40 percent are in various stages of construction, and about 12 percent are still in the survey stage. Status of the balance cannot be determined from available information. Bloc industrial projects constructed or in operation in the underdeveloped countries include not only complete installations such as bridges, cement plants, sugar refineries, glass and textile factories but also the undertaking of petroleum exploration programs, various phases of electrification projects and the supply of capital equipment. Many of the industrial facilities which have been completed

are being operated by Bloc specialists who are training local personnel to take over management and operation of the plants at some later date. (See tables below)

Sino-Soviet Bloc Credits and Grants to
Free World Underdeveloped Countries

1 January 1954-30 April 1958

<u>Recipient</u>	<u>Total Sino-Soviet Bloc</u>	<u>USSR</u>	<u>European Satellites</u>	<u>Communist China</u>
Afghanistan	161	No	breakdown	available
Burma	42	38		4
Cambodia	22			22
Ceylon	60	30	4	26
Egypt	505	175	330	
Iceland	5		5	
India	302	268	34	
Indonesia	120 a/	100	9	11
Nepal	13			13
Syria	294	223	71	
Turkey	10	10		
Yemen	60 plus	No	breakdown	available
Yugoslavia	464	348	116	
Latin America	8		8	
TOTAL	2,066 b/			

a/ May be substantially larger.

b/ Includes small credits or grants to other nations.

Estimated Sino-Soviet Bloc Nonmilitary Technicians
in Free World Underdeveloped Countries, 1957

<u>Country</u>	<u>Total Sino-Soviet Bloc</u>	<u>USSR</u>	<u>Other Bloc</u>
Afghanistan	455	420	35
Argentina	50		50
Bolivia	a/	a/	
Brazil	a/		a/
Burma	60	50	10
Cambodia	30	15	15
Ceylon	5	5	a/
Chile	a/	a/	
Egypt	360	50	310
Greece	10	5	5
India	280	180	100
Indonesia	105	5	100
Iran	5	a/	
Mexico	a/		
Paraguay	a/		a/
Syria	110		110
Sudan	10		10
Turkey	15	a/	15
Yemen	55	20	35
Yugoslavia	50	40	10
TOTAL	1,600	795	805

a/ Five or less believed to be present during the period.