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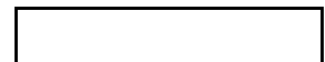
**ECONOMIC INTELLIGENCE REPORT**

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JULY - 31 DECEMBER 1960**

**EIC R14-S10**

**28 February 1961**

**ECONOMIC INTELLIGENCE COMMITTEE**



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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

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For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Afghanistan, Cyprus, Greece, Pakistan, Turkey, and the United Arab Republic (Egypt and Syria); (3) all independent countries in Africa, except the Union of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

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Summary

The Moscow-Peiping Dispute

A notable development during the period under review was the articulation of Moscow's dispute with Peiping over the correct strategy to be pursued in the world Communist struggle. An important element in the dispute that dates back to 1957 is whether, in light of the present state of affairs in underdeveloped countries, the Bloc should rely primarily on collaboration with the nationalistic and non-Communist leaders of those countries or whether greater emphasis should be given to direct revolutionary action against such leadership.

In general, the Chinese Communists have objected to large-scale Soviet economic and political support for bourgeois -- that is, non-Communist -- governments. They have argued that such aid retards the development of more revolutionary forces and, at least in some cases, assists governments with which they are at odds. Nevertheless, Peiping has followed a far less rigid policy in dealings with other Asian countries when China's national interests were at stake. There appears to be no disagreement between Moscow and Peiping about the desirability of providing strong support for regimes, such as Castro's, which follow pro-Bloc foreign and pro-Communist domestic policies.

It is difficult to forecast precisely what effect the Moscow-Peiping dispute will have on the future course of the Soviet economic offensive in underdeveloped areas. Although Soviet foreign aid programs may be subject to modification, they probably will not change drastically as long as Khrushchev and his supporters maintain a dominant position in the Bloc.

Patterns and Prospects

Bloc penetration of the underdeveloped areas continued apace throughout the last half of 1960. For most of the period under review, Latin America and Africa were the principal regions in which the Bloc's new efforts were concentrated. Late in the year, however, Southeast Asia also received priority attention.

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Military assistance once again became an important device for extending Soviet influence. Mainly as the result of a continuing program to provide its own armed forces with more modern equipment and also because of past reductions in the size of its military establishment, the USSR has long been accumulating a sizable stock of earlier models with which it has been implementing its arms diplomacy in key areas. Starting early in the year, the USSR resumed large-scale credit sales of military items to countries that had made substantial purchases in the past and also tried to persuade other countries to outfit at least some of their military forces with Soviet equipment. These sales and offers grew in volume as the year progressed.

Another notable feature of the Bloc foreign economic program has been the Soviet attempt to penetrate Western oil markets in underdeveloped areas, an attempt that became more vigorous during the last half of 1960. Soviet offers to sell petroleum and petroleum products were welcomed by many countries because they provided an opportunity both to reduce their outlay for essential imports by paying lower prices and to save foreign exchange by acquiring such imports through barter deals.

Although the USSR has sizable export commitments, its oil production is sufficient to permit a substantial increase in sales. Moreover, it is accelerating the expansion of its tanker fleet by purchasing ships in Western Europe and Japan in an effort to decrease its dependence on Western charter vessels.

Of greater potential impact in the long run is the Soviet program to provide educational assistance for students from underdeveloped countries. In spite of occasional expressions of discontent by some foreign students studying at Soviet institutions, the USSR has intensified its efforts to attract more students from underdeveloped countries. The Kremlin, however, has given indications that it expects to exercise more effective control over their educational environment. As part of a program to advance these aims, the USSR has offered more scholarships and has established a special institution of higher learning in Moscow, the University of Peoples Friendship, primarily to accommodate students from underdeveloped countries. The new university opened in October 1960, and enrollment was estimated to be 500 for the academic year 1960/61. A student body of 3,000 or more was projected for 1965.

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propaganda purposes. By means of an aggressive promotional program that features local-language editions at nominal prices, the Bloc also is distributing Communist books and periodicals in many underdeveloped countries. Such efforts are augmented by book fairs, gifts of books, and library exchanges.

#### Credits and Grants

During the last half of 1960 the Bloc extended more than \$800 million\* in economic and military assistance to underdeveloped countries. Military aid totaled \$375 million, the largest amount extended by the Bloc during any 6-month period. Total Bloc financial assistance for the full year 1960 stands at a record \$1.5 billion. Although 24 underdeveloped countries have received some form of financial assistance from the Bloc, 9 countries -- the United Arab Republic (UAR), Indonesia, India, Iraq, Afghanistan, Cuba, Ethiopia, Guinea, and Argentina -- accounted for 90 percent of all credits and grants extended by the end of 1960.

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#### Technical Assistance

About 7,900 Bloc technicians were present in underdeveloped countries in the last 6 months of 1960. This number included 6,500 economic and 1,400 military specialists, about 850 more economic and 150 more military personnel than in the first 6 months of the year. Large numbers of Bloc economic technicians were despatched during the period under review, particularly to Africa and the Middle East. An influx of Bloc military technicians into Cuba since mid-1960 accounted for the rise in Bloc military personnel.

By the end of 1960, 11,700 nationals of underdeveloped countries had attended or were enrolled at training institutions in the Bloc. Military personnel comprised 4,600 of this group, academic students 4,000, and technical trainees 3,000. The nine principal recipients listed above were host to more than 75 percent of the Bloc technicians present in underdeveloped areas in the last half of 1960 and provided more than 85 percent of the students from these areas who have studied in the Bloc since 1955.

\* Unless otherwise indicated, all dollar values in this report are in terms of US dollars.

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### Trade

Bloc trade with underdeveloped countries during the first 6 months of 1960 increased 20 percent above the level reached for the same period in 1959. The Bloc not only exchanged a larger volume of goods with these countries but also increased its relative share of their total trade. Bloc imports expanded more than exports, with Chinese Communist purchases showing a gain of more than 100 percent above the level of the first 6 months of 1959.

Although increases were posted in Bloc trade with all underdeveloped regions, commerce with Africa showed the largest relative gain, 105 percent above the level reported for the first half of 1959. Exchanges with Latin America rose by 50 percent, reflecting the growth in Bloc economic ties with Cuba. Bloc trade with Asia and the Middle East expanded by 15 and 10 percent, respectively.

The European Satellites continued as the major trading area in Bloc commerce with underdeveloped countries. Communist China increased its share to one-fifth of the total, a rise of 5 percent above its share in the first half of 1959.

### Latin America

Throughout 1960, Bloc efforts in Latin America were dominated by the growing partnership with Cuba. By December the Castro regime had (1) decided to establish diplomatic relations with all Bloc regimes except East Germany, (2) followed a UN voting pattern almost parallel to that of the Soviet Bloc, and (3) issued public statements echoing the Bloc's views on most issues. This growing Cuban-Bloc entente was sharply reflected in the economic sphere. By mid-December, Cuba had established a network of bilateral economic agreements with all Bloc regimes except Albania. During 1960 the Bloc purchased about 40 percent of Cuba's sugar exports, and trade agreements concluded late in 1960 indicate that this proportion may reach 65 percent in 1961. In addition, the Bloc supplied all Cuban imports of POL during the second half of 1960 and became a major source of many other commodities. The USSR, Communist China, Czechoslovakia, and Hungary provided Cuba with nonmilitary credits totaling \$215 million for use in the construction of 50 or more industrial plants. Bloc technicians made preliminary surveys of the Cuban economy, and many held key positions in various Cuban economic agencies. Large-scale arms shipments provided a more sinister aspect to Cuban-Bloc cooperation.

Besides Cuba the Bloc's most dramatic efforts were made in Bolivia. In spite of the relative unimportance of previous Bolivian-Bloc relations, widely publicized Soviet offers to provide Bolivia with a tin

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smelter evoked a strong emotional response among many sectors of the Bolivian populace and contributed to the political instability of that country. Accordingly, the Bolivian Government felt forced to name an economic mission to explore Soviet offers of aid.

Elsewhere in the hemisphere the Bloc pursued its program with considerably less vigor. Bloc economic influence in the River Plate countries continued to deteriorate throughout 1960. US aid and the adoption of the economic reforms recommended by the International Monetary Fund continued to reduce Uruguayan and Argentine interest in Bloc trade. Argentina canceled its bilateral agreements with all Bloc countries except the USSR, and commerce with the Bloc showed little change from 1959. The Bloc's share of Uruguay's exports in the first half of 1960 was only 10 percent compared with 28 percent in the corresponding period of 1959. The most significant decline was noted in wool purchases, which dropped from 40 percent of Uruguay's total wool sales in the 1958/59 season to 14 percent in the 1959/60 season. The USSR, Uruguay's number one customer in the 1958/59 season, was inactive in the Uruguayan wool market in the 1959/60 season. Uruguay appeared to be equally reluctant to buy Soviet goods. Soviet efforts to obtain a long-term wool-petroleum barter agreement were rejected in spite of pressure from wool exporters. Among Bloc countries, only Poland and Communist China remained as important Uruguayan trading partners, the latter only in the capacity of importer.

During the last half of 1960 the Bloc was occupied in efforts to deliver on its previous trade commitments to Brazil. Trade continued to increase, as East Germany and Poland assumed a more important role in the Bloc economic efforts. The last half of 1960, however, was marked by the complete absence of new Bloc moves. Uncertainties over the future policies of President-elect Quadros contributed to the general cautiousness of the Bloc.

In other developments Ecuador reached an agreement with Czechoslovakia to barter bananas and coffee worth \$630,000 for Czechoslovak technical equipment. An Ecuadoran official stated that Czechoslovakia was willing to extend credits up to \$10 million. The USSR also has renewed its efforts to expand trade with Chile, offering to exchange petroleum for Chilean copper.

#### Middle East

In the Middle East, Bloc efforts were marked by modest progress on existing programs and the establishment of new lines of credit to Iraq and the UAR.

Although limited improvement was noted in Iraq's relations with the West, Bloc economic ties with Iraq expanded during the last half

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of 1960. Iraq signed a \$70 million arms agreement with the USSR in September and accepted a Czechoslovak credit of \$33.6 million for industrial development projects. Although a few Soviet projects were initiated during the period under review, many difficulties were encountered. On the one hand, Bloc technicians complained of Iraq's procrastination in providing construction areas and general lack of cooperation, and, on the other hand, Iraqi officials criticized the Bloc's failure to deliver goods on schedule.

The UAR continued to maintain strong economic ties with the Bloc in spite of last year's cooling in political relations between the two areas. The Egyptian sector received a \$14.4 million credit from Hungary for industrial development, and the Syrian sector a \$2.8 million credit from Czechoslovakia for the supply of equipment for municipal and rural projects.

Implementation of outstanding Bloc credits was pressed in both sectors of the UAR. In the Syrian sector, where utilization of the 1957 Soviet credit had been lagging, there was a sudden spurt of activity. In September, contracts for a number of major projects were awarded to the USSR, and technical studies were initiated. One of the major agreements thus concluded was a contract for Soviet construction of the Qamishli-Latakia-Aleppo Railroad. In the Egyptian sector, work on the Aswan High Dam appeared to be progressing on schedule. Delivery of all the machinery and equipment for the first stage of construction was expected to be completed by the end of 1960, and Soviet engineers were working on plans for the second stage.

The USSR continued to exploit the Afghan desire for rapid economic and social development. The high priority accorded to existing Bloc efforts in Afghanistan and the vigorous implementation of Bloc projects, particularly on such strategic projects as airfields and roads, appears to have heightened Soviet prestige in that area. Major Soviet initiatives during the period also include (1) the entry into the field of city planning and housing with purported agreements to provide advisers to develop a 25-year rebuilding program for the city of Kabul and to construct a large number of dwelling units, (2) the completion of the Kabul airport project, and (3) the conclusion of contracts for construction of the Naghlu hydroelectric station and the Darunta irrigation project.

No decision was reached on a Soviet offer to exploit, refine, and market petroleum reserves discovered by the Bloc in northern Afghanistan. It appeared likely, however, that any such program would eventually become dependent on assistance from Moscow. The Bloc, through the provision of material, training, and advisory services and the extensive construction of military facilities, remained the dominant factor behind the buildup of the Afghan armed forces.

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The arrival in Moscow of a Pakistan economic delegation to discuss an offer of Soviet assistance for petroleum development indicated a shift in the policy of the Pakistan Government of avoiding economic involvement with the Bloc. Soviet officials appeared to be willing to extend a long-term credit to be repaid in installments by the export of Pakistan commodities. The Pakistan team, among other negotiating objectives, hoped to induce the USSR to accept exports that cannot readily be sold in the West.

No new Bloc credits were extended to Yemen, although there were several offers during the review period. Meanwhile, the near completion of major Bloc projects carried out under previous credits added significantly to the internal propaganda impact of Bloc economic assistance. Iran, determined to maintain its Western ties, remained unreceptive to a Soviet offer of substantial economic assistance. Negotiations, however, were reported to be underway for Czechoslovak assistance to a private company for the supply and installation of an ore-dressing plant. The provisional government of Turkey refrained from taking up general offers of aid proffered by the USSR and Poland. The Polish offers included a \$4 million credit to build a borax and boric acid plant.

The Greek Government continued to resist any large-scale collaboration with the Bloc, but internal pressure was building up for closer trade relations as a means of reducing large agricultural surpluses. Commercial efforts also characterized Bloc approaches to Cyprus. Government leaders indicated that, although they do not wish to accept Soviet aid, they may accept help from any and all sources if the island's economic situation should continue to deteriorate.

#### Africa

Africa became a major theater for Bloc economic activities during the period under review. Its bold intervention in the Congo resulted in a serious setback when its missions were expelled. Nevertheless, it obviously had not written off the Congo as a profitable target. Moreover, it scored major gains in Ghana while further consolidating its already strong position in Guinea. The rash of newly independent countries provided a wealth of opportunities for the Bloc -- opportunities that it did not hesitate to exploit. Diplomatic and economic missions were despatched quickly, and offers of trade and economic assistance followed promptly. Of the newer nations, the Bloc achieved a significant foothold only in Mali. Nevertheless, political and economic forces operating in many of the new nations increased their receptivity to Bloc offers. Of the established countries, Morocco and Sudan accepted Bloc military aid and Tunisia accepted Bloc economic credits, all for the first time.

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The pace of economic activity quickened in Guinea as the Bloc pursued its objective of demonstrating the advantages of cooperation with the Bloc. Bloc aid rose from \$43 million to more than \$108 million during the period. The USSR provided an additional credit of \$21.5 million to finance several projects on the Konkoure River and other projects set forth in Guinea's economic development program. Peiping extended a \$25 million interest-free credit payable in 10 years for other projects in the development program. East Germany, Hungary, and Poland extended developmental credits aggregating more than \$12 million. Following Guinea's withdrawal from the franc zone, the Bloc assumed an increasingly dominant position in Guinea's foreign trade. Bloc aid to the Guinean military establishment also increased sharply. Three shipments of Bloc arms arrived in the fall of 1960, some of which went to Mali.

The Bloc took full advantage of Ghana's growing estrangement from the West following the defeat of Nkrumah's Congo policy. A new era in Bloc-Ghanaian economic collaboration begun in August with the signing of three agreements covering trade, credit, and technical assistance as well as the purchase of Soviet aircraft. A \$40 million Soviet credit repayable in 12 years at 2.5-percent interest may be used in part to construct the Bui Dam on the Black Volta River. This project could undercut the much larger Volta River project that would be financed by the West. The USSR also advanced a \$6.7 million credit to purchase four Il-18 aircraft for Ghana Airways, and agreement in principle was reached for the purchase of two more. The number of Soviet technicians in the country increased to at least 120 during the period compared with a mere handful in the previous 6 months.

#### Asia

Increased receptivity characterized Asian reactions to Bloc offers of aid, trade, and technical assistance, but the degree of receptivity varied widely. Some countries became less apprehensive over the possibility that economic involvement would necessarily lead to serious dependence on the Bloc or other undesirable consequences.

Indonesia continued to look to the Bloc, particularly the USSR, for further support for its military buildup and economic development program. The USSR made a significant advance when, in September 1960, preliminary arrangements were worked out for a \$300 million line of credit to Indonesia for large-scale modernization and training of its armed forces. Moscow also moved quickly to implement Khrushchev's February pledge of \$250 million for economic development. Czechoslovakia pledged a long-term credit for the purchase of capital goods, and Poland, Hungary, and Bulgaria agreed to begin negotiations on the extension of medium-term credits. Survey activities on new aid projects

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considerably increased the number of Bloc technicians assigned to Indonesia. A new Soviet-Indonesian trade agreement provided for tripling the value of exchanges between the two areas within the next 3 years.

Cambodia accepted substantial additional aid from the USSR, Czechoslovakia, and Communist China. Cambodian acceptance of credits assistance marked a significant departure from earlier policy. Trade with the Bloc in 1960 appeared to be increasing sharply and may have more than doubled the level in 1959.

India remained receptive to trade and aid offers from the USSR and the European Satellites. Important developments included India's acceptance of a new \$125 million credit to finance projects under its Third Five Year Plan, the purchase by India of certain quasi-military equipment, and the entry of the USSR into India's petroleum market.

It appeared likely that Burma would accept some Bloc assistance in connection with its Four Year Plan for economic development. There also were indications of a concerted Burmese effort to establish closer ties with Communist China.\* Trade with the Bloc, particularly with Communist China, increased. It is expected to rise still further in 1961 as a result of new trade arrangements. Bloc efforts in Thailand continued to be limited to diplomatic activity and small commercial trade, but Thai dissatisfaction with some US policies could contribute to an improved climate in Thailand for Soviet activities.

Nepalese leaders continued to pursue an overtly neutralist foreign policy while remaining apprehensive over internal and external Communist objectives. Nevertheless, Communist influence in Nepal probably increased somewhat during the period as relations between the government of Nepal and the USSR and Communist China became somewhat closer. The USSR offered to finance the construction of the trans-Nepal road, and work on five Soviet projects proceeded close to schedule. Communist China presented gifts in the form of agricultural and medical equipment, but there were no visible results of its aid program, which dates back to 1956.

The Bloc, taking advantage of Ceylon's grave economic problems, expanded its offers of aid and trade and expedited assistance under existing agreements. Negotiations were resumed with Communist China for the acquisition of a textile mill under the 1957 aid agreement. Exports to the Bloc during the first 9 months increased 60 percent, primarily as a result of stepped-up Bloc purchases of rubber.

\* On 9 January 1961, Communist China extended to Burma an interest-free credit of \$84 million to be used for economic projects over a 6-year period ending in September 1957.

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Europe

Bloc economic relations with the underdeveloped countries of Europe were limited to trade. Yugoslav-Bloc relations continued to be generally correct. Trade between the two areas expanded, but because of the over-all increase in Yugoslavia's trade the Bloc accounted for no greater proportion of Yugoslavia's total trade than it had in the preceding year. Five-year trade agreements coinciding with Yugoslavia's new Five Year Plan were concluded with most Bloc countries, thus continuing a trend toward concluding longer term trade arrangements with Moscow and its Satellites. There were no indications of discord in Bloc-Yugoslav economic relations, but there also were no new offers of economic assistance.

Iceland's exchange stabilization program, initiated in March 1960, significantly reduced imports from the Bloc. Exports to the Bloc also declined appreciably. The Bloc, however, continued to provide Iceland with a major outlet for its fish and fish products that cannot readily be sold in the West. For the first time, Iceland succeeded in obtaining a convertible currency clause in its trade arrangements with a Bloc country when, in October 1960, a new agreement was concluded with Poland.

The Bloc made no significant progress in expanding economic relations with Spain or Portugal during 1960. Bloc trade with Portugal continued to account for only a very small percentage of the total. Spanish trade with the Bloc, also small, continued in 1960 at about the same level as in previous years.

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Included with this Summary are two charts\* from the complete text of EIC-R14-S10 -- Figure 4, Bloc Credits and Grants to Underdeveloped Countries, January 1954 - December 1960, and Figure 5, Bloc Economic and Military Technicians in Underdeveloped Countries, July-December 1960.

\* Following p. 10.

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By the end of 1960, 11,700 nationals of underdeveloped countries had attended or were enrolled at training institutions in the Bloc. Military personnel comprised 4,600 of this group, academic students 4,000, and technical trainees 3,000. The nine principal recipients listed above were host to more than 75 percent of the Bloc technicians present in underdeveloped areas in the last half of 1960 and provided more than 85 percent of the students from these areas who have studied in the Bloc since 1955.

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The European Satellites continued as the major trading area in Bloc commerce with underdeveloped countries. Communist China increased its share to one-fifth of the total, a rise of 5 percent above its share in the first half of 1959.

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In other developments Ecuador reached an agreement with Czechoslovakia to barter bananas and coffee worth \$630,000 for Czechoslovak technical equipment. An Ecuadorian official stated that Czechoslovakia was willing to extend credits up to \$10 million. The USSR also has renewed its efforts to expand trade with Chile, offering to exchange petroleum for Chilean copper.

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In the Middle East, Bloc efforts were marked by modest progress on existing programs and the establishment of new lines of credit to Iraq and the UAR.

Although limited improvement was noted in Iraq's relations with the West, Bloc economic ties with Iraq expanded during the last half

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The UAR continued to maintain strong economic ties with the Bloc in spite of last year's cooling in political relations between the two areas. The Egyptian sector received a \$14.4 million credit from Hungary for industrial development, and the Syrian sector a \$2.8 million credit from Czechoslovakia for the supply of equipment for municipal and rural projects.

Implementation of outstanding Bloc credits was pressed in both sectors of the UAR. In the Syrian sector, where utilization of the 1957 Soviet credit had been lagging, there was a sudden spurt of activity. In September, contracts for a number of major projects were awarded to the USSR, and technical studies were initiated. One of the major agreements thus concluded was a contract for Soviet construction of the Qamishli-Latakia-Aleppo Railroad. In the Egyptian sector, work on the Aswan High Dam appeared to be progressing on schedule. Delivery of all the machinery and equipment for the first stage of construction was expected to be completed by the end of 1960, and Soviet engineers were working on plans for the second stage.

The USSR continued to exploit the Afghan desire for rapid economic and social development. The high priority accorded to existing Bloc efforts in Afghanistan and the vigorous implementation of Bloc projects, particularly on such strategic projects as airfields and roads, appears to have heightened Soviet prestige in that area. Major Soviet initiatives during the period also include (1) the entry into the field of city planning and housing with purported agreements to provide advisers to develop a 25-year rebuilding program for the city of Kabul and to construct a large number of dwelling units, (2) the completion of the Kabul airport project, and (3) the conclusion of contracts for construction of the Naghlu hydroelectric station and the Darunta irrigation project.

No decision was reached on a Soviet offer to exploit, refine, and market petroleum reserves discovered by the Bloc in northern Afghanistan. It appeared likely, however, that any such program would eventually become dependent on assistance from Moscow. The Bloc, through the provision of material, training, and advisory services and the extensive construction of military facilities, remained the dominant factor behind the buildup of the Afghan armed forces.

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The arrival in Moscow of a Pakistan economic delegation to discuss an offer of Soviet assistance for petroleum development indicated a shift in the policy of the Pakistan Government of avoiding economic involvement with the Bloc. Soviet officials appeared to be willing to extend a long-term credit to be repaid in installments by the export of Pakistan commodities. The Pakistan team, among other negotiating objectives, hoped to induce the USSR to accept exports that cannot readily be sold in the West.

No new Bloc credits were extended to Yemen, although there were several offers during the review period. Meanwhile, the near completion of major Bloc projects carried out under previous credits added significantly to the internal propaganda impact of Bloc economic assistance. Iran, determined to maintain its Western ties, remained unreceptive to a Soviet offer of substantial economic assistance. Negotiations, however, were reported to be underway for Czechoslovak assistance to a private company for the supply and installation of an ore-dressing plant. The provisional government of Turkey refrained from taking up general offers of aid proffered by the USSR and Poland. The Polish offers included a \$4 million credit to build a borax and boric acid plant.

The Greek Government continued to resist any large-scale collaboration with the Bloc, but internal pressure was building up for closer trade relations as a means of reducing large agricultural surpluses. Commercial efforts also characterized Bloc approaches to Cyprus. Government leaders indicated that, although they do not wish to accept Soviet aid, they may accept help from any and all sources if the island's economic situation should continue to deteriorate.

#### Africa

Africa became a major theater for Bloc economic activities during the period under review. Its bold intervention in the Congo resulted in a serious setback when its missions were expelled. Nevertheless, it obviously had not written off the Congo as a profitable target. Moreover, it scored major gains in Ghana while further consolidating its already strong position in Guinea. The rash of newly independent countries provided a wealth of opportunities for the Bloc -- opportunities that it did not hesitate to exploit. Diplomatic and economic missions were despatched quickly, and offers of trade and economic assistance followed promptly. Of the newer nations, the Bloc achieved a significant foothold only in Mali. Nevertheless, political and economic forces operating in many of the new nations increased their receptivity to Bloc offers. Of the established countries, Morocco and Sudan accepted Bloc military aid and Tunisia accepted Bloc economic credits, all for the first time.

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The pace of economic activity quickened in Guinea as the Bloc pursued its objective of demonstrating the advantages of cooperation with the Bloc. Bloc aid rose from \$43 million to more than \$108 million during the period. The USSR provided an additional credit of \$21.5 million to finance several projects on the Konkoure River and other projects set forth in Guinea's economic development program. Peiping extended a \$25 million interest-free credit payable in 10 years for other projects in the development program. East Germany, Hungary, and Poland extended developmental credits aggregating more than \$12 million. Following Guinea's withdrawal from the franc zone, the Bloc assumed an increasingly dominant position in Guinea's foreign trade. Bloc aid to the Guinean military establishment also increased sharply. Three shipments of Bloc arms arrived in the fall of 1960, some of which went to Mali.

The Bloc took full advantage of Ghana's growing estrangement from the West following the defeat of Nkrumah's Congo policy. A new era in Bloc-Ghanaian economic collaboration began in August with the signing of three agreements covering trade, credit, and technical assistance as well as the purchase of Soviet aircraft. A \$40 million Soviet credit repayable in 12 years at 2.5-percent interest may be used in part to construct the Bui Dam on the Black Volta River. This project could undercut the much larger Volta River project that would be financed by the West. The USSR also advanced a \$6.7 million credit to purchase four Il-18 aircraft for Ghana Airways, and agreement in principle was reached for the purchase of two more. The number of Soviet technicians in the country increased to at least 120 during the period compared with a mere handful in the previous 6 months.

#### Asia

Increased receptivity characterized Asian reactions to Bloc offers of aid, trade, and technical assistance, but the degree of receptivity varied widely. Some countries became less apprehensive over the possibility that economic involvement would necessarily lead to serious dependence on the Bloc or other undesirable consequences.

Indonesia continued to look to the Bloc, particularly the USSR, for further support for its military buildup and economic development program. The USSR made a significant advance when, in September 1960, preliminary arrangements were worked out for a \$300 million line of credit to Indonesia for large-scale modernization and training of its armed forces. Moscow also moved quickly to implement Khrushchev's February pledge of \$250 million for economic development. Czechoslovakia pledged a long-term credit for the purchase of capital goods, and Poland, Hungary, and Bulgaria agreed to begin negotiations on the extension of medium-term credits. Survey activities on new aid projects

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considerably increased the number of Bloc technicians assigned to Indonesia. A new Soviet-Indonesian trade agreement provided for tripling the value of exchanges between the two areas within the next 3 years.

Cambodia accepted substantial additional aid from the USSR, Czechoslovakia, and Communist China. Cambodian acceptance of credits assistance marked a significant departure from earlier policy. Trade with the Bloc in 1960 appeared to be increasing sharply and may have more than doubled the level in 1959.

India remained receptive to trade and aid offers from the USSR and the European Satellites. Important developments included India's acceptance of a new \$125 million credit to finance projects under its Third Five Year Plan, the purchase by India of certain quasi-military equipment, and the entry of the USSR into India's petroleum market.

It appeared likely that Burma would accept some Bloc assistance in connection with its Four Year Plan for economic development. There also were indications of a concerted Burmese effort to establish closer ties with Communist China.\* Trade with the Bloc, particularly with Communist China, increased. It is expected to rise still further in 1961 as a result of new trade arrangements. Bloc efforts in Thailand continued to be limited to diplomatic activity and small commercial trade, but Thai dissatisfaction with some US policies could contribute to an improved climate in Thailand for Soviet activities.

Nepalese leaders continued to pursue an overtly neutralist foreign policy while remaining apprehensive over internal and external Communist objectives. Nevertheless, Communist influence in Nepal probably increased somewhat during the period as relations between the government of Nepal and the USSR and Communist China became somewhat closer. The USSR offered to finance the construction of the trans-Nepal road, and work on five Soviet projects proceeded close to schedule. Communist China presented gifts in the form of agricultural and medical equipment, but there were no visible results of its aid program, which dates back to 1956.

The Bloc, taking advantage of Ceylon's grave economic problems, expanded its offers of aid and trade and expedited assistance under existing agreements. Negotiations were resumed with Communist China for the acquisition of a textile mill under the 1957 aid agreement. Exports to the Bloc during the first 9 months increased 60 percent, primarily as a result of stepped-up Bloc purchases of rubber.

\* On 9 January 1961, Communist China extended to Burma an interest-free credit of \$84 million to be used for economic projects over a 6-year period ending in September 1957.

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Europe

Bloc economic relations with the underdeveloped countries of Europe were limited to trade. Yugoslav-Bloc relations continued to be generally correct. Trade between the two areas expanded, but because of the over-all increase in Yugoslavia's trade the Bloc accounted for no greater proportion of Yugoslavia's total trade than it had in the preceding year. Five-year trade agreements coinciding with Yugoslavia's new Five Year Plan were concluded with most Bloc countries, thus continuing a trend toward concluding longer term trade arrangements with Moscow and its Satellites. There were no indications of discord in Bloc-Yugoslav economic relations, but there also were no new offers of economic assistance.

Iceland's exchange stabilization program, initiated in March 1960, significantly reduced imports from the Bloc. Exports to the Bloc also declined appreciably. The Bloc, however, continued to provide Iceland with a major outlet for its fish and fish products that cannot readily be sold in the West. For the first time, Iceland succeeded in obtaining a convertible currency clause in its trade arrangements with a Bloc country when, in October 1960, a new agreement was concluded with Poland.

The Bloc made no significant progress in expanding economic relations with Spain or Portugal during 1960. Bloc trade with Portugal continued to account for only a very small percentage of the total. Spanish trade with the Bloc, also small, continued in 1960 at about the same level as in previous years.

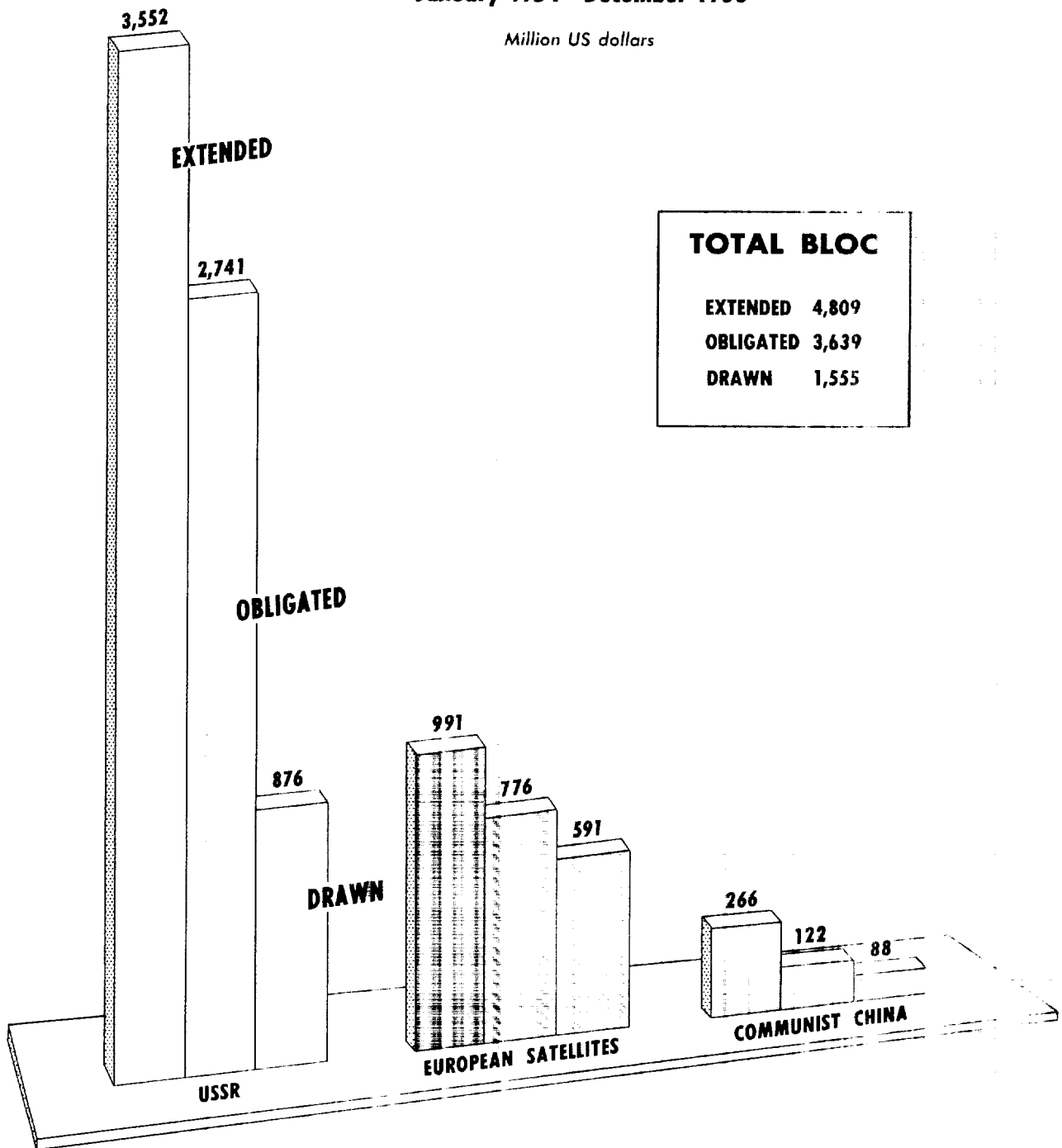
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# BLOC CREDITS AND GRANTS TO UNDERDEVELOPED COUNTRIES

January 1954 - December 1960

Million US dollars



31559 1-61

Figure 1

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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JULY -- 31 DECEMBER 1960**

**February 1961**

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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in this series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports under the same title.

This report, covering the 6 months from 1 July through 31 December 1960, constitutes the tenth periodic supplement to the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy non-economic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Afghanistan, Cyprus, Greece, Pakistan, Turkey, and the United Arab Republic (Egypt and Syria); (3) all independent countries in Africa, except the Union of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

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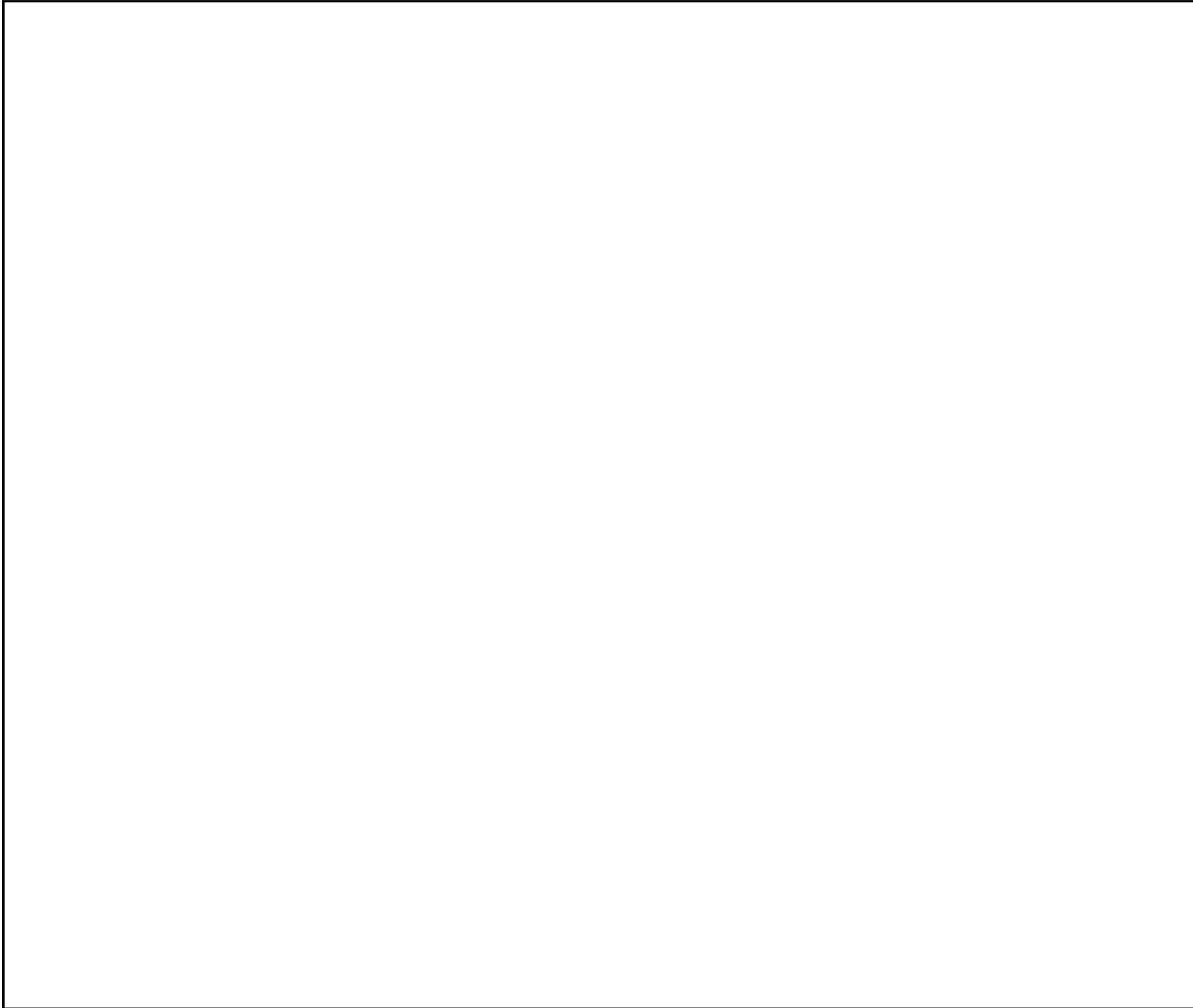
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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS  
1 JULY - 31 DECEMBER 1960

Summary

The Moscow-Peiping Dispute

A notable development during the period under review was the articulation of Moscow's dispute with Peiping over the correct strategy to be pursued in the world Communist struggle. An important element in the dispute that dates back to 1957 is whether, in light of the present state of affairs in underdeveloped countries, the Bloc should rely primarily on collaboration with the nationalistic and non-Communist leaders of those countries or whether greater emphasis should be given to direct revolutionary action against such leadership.

In general, the Chinese Communists have objected to large-scale Soviet economic and political support for bourgeois -- that is, non-Communist -- governments. They have argued that such aid retards the development of more revolutionary forces and, at least in some cases, assists governments with which they are at odds. Nevertheless, Peiping has followed a far less rigid policy in dealings with other Asian countries when China's national interests were at stake. There appears to be no disagreement between Moscow and Peiping about the desirability of providing strong support for regimes, such as Castro's, which follow pro-Bloc foreign and pro-Communist domestic policies.

It is difficult to forecast precisely what effect the Moscow-Peiping dispute will have on the future course of the Soviet economic offensive in underdeveloped areas. Although Soviet foreign aid programs may be subject to modification, they probably will not change drastically as long as Khrushchev and his supporters maintain a dominant position in the Bloc.

Patterns and Prospects

Bloc penetration of the underdeveloped areas continued apace throughout the last half of 1960. For most of the period under review, Latin America and Africa were the principal regions in which the Bloc's new efforts were concentrated. Late in the year, however, Southeast Asia also received priority attention.

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Military assistance once again became an important device for extending Soviet influence. Mainly as the result of a continuing program to provide its own armed forces with more modern equipment and also because of past reductions in the size of its military establishment, the USSR has long been accumulating a sizable stock of earlier models with which it has been implementing its arms diplomacy in key areas. Starting early in the year, the USSR resumed large-scale credit sales of military items to countries that had made substantial purchases in the past and also tried to persuade other countries to outfit at least some of their military forces with Soviet equipment. These sales and offers grew in volume as the year progressed.

Another notable feature of the Bloc foreign economic program has been the Soviet attempt to penetrate Western oil markets in underdeveloped areas, an attempt that became more vigorous during the last half of 1960. Soviet offers to sell petroleum and petroleum products were welcomed by many countries because they provided an opportunity both to reduce their outlay for essential imports by paying lower prices and to save foreign exchange by acquiring such imports through barter deals.

Although the USSR has sizable export commitments, its oil production is sufficient to permit a substantial increase in sales. Moreover, it is accelerating the expansion of its tanker fleet by purchasing ships in Western Europe and Japan in an effort to decrease its dependence on Western charter vessels.

Of greater potential impact in the long run is the Soviet program to provide educational assistance for students from underdeveloped countries. In spite of occasional expressions of discontent by some foreign students studying at Soviet institutions, the USSR has intensified its efforts to attract more students from underdeveloped countries. The Kremlin, however, has given indications that it expects to exercise more effective control over their educational environment. As part of a program to advance these aims, the USSR has offered more scholarships and has established a special institution of higher learning in Moscow, the University of Peoples Friendship, primarily to accommodate students from underdeveloped countries. The new university opened in October 1960, and enrollment was estimated to be 500 for the academic year 1960/61. A student body of 3,000 or more was projected for 1965.

Propaganda activities during the last half of 1960 continued to serve as an integral part of the Bloc penetration program. Radiobroadcasting services, the spearhead of these efforts, expanded in time, language, and area coverage. The Bloc also encouraged the exchange of films and television programs in an effort to utilize these media for

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propaganda purposes. By means of an aggressive promotional program that features local-language editions at nominal prices, the Bloc also is distributing Communist books and periodicals in many underdeveloped countries. Such efforts are augmented by book fairs, gifts of books, and library exchanges.

#### Credits and Grants

During the last half of 1960 the Bloc extended more than \$800 million\* in economic and military assistance to underdeveloped countries. Military aid totaled \$375 million, the largest amount extended by the Bloc during any 6-month period. Total Bloc financial assistance for the full year 1960 stands at a record \$1.5 billion. Although 24 underdeveloped countries have received some form of financial assistance from the Bloc, 9 countries -- the United Arab Republic (UAR), Indonesia, India, Iraq, Afghanistan, Cuba, Ethiopia, Guinea, and Argentina -- accounted for 90 percent of all credits and grants extended by the end of 1960.

Drawings on Bloc credits and grants amounted to about \$95 million during the period July-December 1960. Utilization of nonmilitary aid accounted for most of this sum. By the end of 1960, drawings on all Bloc aid extended since 1954 totaled \$1.6 billion, more than half of which represented goods and services provided by the USSR.

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appeared to be willing to extend a long-term credit to be repaid in installments by the export of Pakistan commodities.

No new Bloc credits were extended to Yemen, although there were several offers during the review period. Meanwhile, the near completion of major Bloc projects carried out under previous credits added significantly to the internal propaganda impact of Bloc economic assistance. Iran, determined to maintain its Western ties, remained unreceptive to a Soviet offer of substantial economic assistance. Negotiations, however, were reported to be underway for Czechoslovak assistance to a private company for the supply and installation of an ore-dressing plant. The provisional government of Turkey refrained from taking up general offers of aid proffered by the USSR and Poland. The Polish offers included a \$4 million credit to build a borax and boric acid plant.

The Greek Government continued to resist any large-scale collaboration with the Bloc, but internal pressure was building up for closer trade relations as a means of reducing large agricultural surpluses. Commercial efforts also characterized Bloc approaches to Cyprus.

#### Africa

Africa became a major theater for Bloc economic activities during the period under review. Its bold intervention in the Congo resulted in a serious setback when its missions were expelled. Nevertheless, it obviously had not written off the Congo as a profitable target. Moreover, it scored major gains in Ghana while further consolidating its already strong position in Guinea. The rash of newly independent countries provided a wealth of opportunities for the Bloc -- opportunities that it did not hesitate to exploit. Diplomatic and economic missions were despatched quickly, and offers of trade and economic assistance followed promptly. Of the newer nations, the Bloc achieved a significant foothold only in Mali. Nevertheless, political and economic forces operating in many of the new nations increased their receptivity to Bloc offers. Of the established countries, Morocco and Sudan accepted Bloc military aid and Tunisia accepted Bloc economic credits, all for the first time.

The pace of economic activity quickened in Guinea as the Bloc pursued its objective of demonstrating the advantages of cooperation with the Bloc. Bloc aid rose from \$43 million to more than \$108 million during the period. The USSR provided an additional credit of \$21.5 million to finance several projects on the Konkoure River and other projects set forth in Guinea's economic development program. Peiping extended a \$25 million interest-free credit payable in 10 years for other projects in the development program. East Germany, Hungary, and Poland extended developmental credits aggregating more than \$12 million. Following Guinea's withdrawal from the franc zone, the Bloc assumed an

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increasingly dominant position in Guinea's foreign trade. Bloc aid to the Guinean military establishment also increased sharply.

The Bloc took full advantage of Ghana's growing estrangement from the West following the defeat of Nkrumah's Congo policy. A new era in Bloc-Ghanaian economic collaboration began in August with the signing of three agreements covering trade, credit, and technical assistance as well as the purchase of Soviet aircraft. A \$40 million Soviet credit repayable in 12 years at 2.5-percent interest may be used in part to construct the Bui Dam on the Black Volta River. This project could undercut the much larger Volta River project that would be financed by the West. The USSR also advanced a \$6.7 million credit to purchase four Il-18 aircraft for Ghana Airways, and agreement in principle was reached for the purchase of two more. The number of Soviet technicians in the country increased to at least 120 during the period compared with a mere handful in the previous 6 months.

#### Asia

Increased receptivity characterized Asian reactions to Bloc offers of aid, trade, and technical assistance, but the degree of receptivity varied widely. Some countries became less apprehensive over the possibility that economic involvement would necessarily lead to serious dependence on the Bloc or other undesirable consequences.

Indonesia continued to look to the Bloc, particularly the USSR, for further support for its military buildup and economic development program. The USSR made a significant advance when, in September 1960, preliminary arrangements were worked out for a \$300 million line of credit to Indonesia for large-scale modernization and training of its armed forces. Moscow also moved quickly to implement Khrushchev's February pledge of \$250 million for economic development. Czechoslovakia pledged a long-term credit for the purchase of capital goods, and Poland, Hungary, and Bulgaria agreed to begin negotiations on the extension of medium-term credits. Survey activities on new aid projects considerably increased the number of Bloc technicians assigned to Indonesia. A new Soviet-Indonesian trade agreement provided for tripling the value of exchanges between the two areas within the next 3 years.

Cambodia accepted substantial additional aid from the USSR, Czechoslovakia, and Communist China. Cambodian acceptance of credits assistance marked a significant departure from earlier policy. Trade with the Bloc in 1960 appeared to be increasing sharply and may have more than doubled the level in 1959.

India remained receptive to trade and aid offers from the USSR and the European Satellites. Important developments included India's

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acceptance of a new \$125 million credit to finance projects under its Third Five Year Plan, the purchase by India of certain quasi-military equipment, and the entry of the USSR into India's petroleum market.

It appeared likely that Burma would accept some Bloc assistance in connection with its Four Year Plan for economic development. There also were indications of a concerted Burmese effort to establish closer ties with Communist China.\* Trade with the Bloc, particularly with Communist China, increased. It is expected to rise still further in 1961 as a result of new trade arrangements. Bloc efforts in Thailand continued to be limited to diplomatic activity and small commercial trade.

Nepalese leaders continued to pursue an overtly neutralist foreign policy while remaining apprehensive over internal and external Communist objectives. Nevertheless, Communist influence in Nepal probably increased somewhat during the period as relations between the government of Nepal and the USSR and Communist China became somewhat closer. The USSR offered to finance the construction of the trans-Nepal road, and work on five Soviet projects proceeded close to schedule. Communist China presented gifts in the form of agricultural and medical equipment, but there were no visible results of its aid program, which dates back to 1956.

The Bloc, taking advantage of Ceylon's grave economic problems, expanded its offers of aid and trade and expedited assistance under existing agreements. Negotiations were resumed with Communist China for the acquisition of a textile mill under the 1957 aid agreement. Exports to the Bloc during the first 9 months increased 60 percent, primarily as a result of stepped-up Bloc purchases of rubber.

#### Europe

Bloc economic relations with the underdeveloped countries of Europe were limited to trade. Yugoslav-Bloc relations continued to be generally correct. Trade between the two areas expanded, but because of the over-all increase in Yugoslavia's trade the Bloc accounted for no greater proportion of Yugoslavia's total trade than it had in the preceding year. Five-year trade agreements coinciding with Yugoslavia's new Five Year Plan were concluded with most Bloc countries, thus continuing a trend toward concluding longer term trade arrangements with Moscow and its Satellites. There were no indications of discord in Bloc-Yugoslav economic relations, but there also were no new offers of economic assistance.

\* On 9 January 1961, Communist China extended to Burma an interest-free credit of \$84 million to be used for economic projects over a 6-year period ending in September 1957.

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Iceland's exchange stabilization program, initiated in March 1960, significantly reduced imports from the Bloc. Exports to the Bloc also declined appreciably. The Bloc, however, continued to provide Iceland with a major outlet for its fish and fish products that cannot readily be sold in the West. For the first time, Iceland succeeded in obtaining a convertible currency clause in its trade arrangements with a Bloc country when, in October 1960, a new agreement was concluded with Poland.

The Bloc made no significant progress in expanding economic relations with Spain or Portugal during 1960. Bloc trade with Portugal continued to account for only a very small percentage of the total. Spanish trade with the Bloc, also small, continued in 1960 at about the same level as in previous years.

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