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INTELLIGENCE MEMORANDUM

THE COMMUNIST ECONOMIC CAMPAIGN
IN THE NEAR EAST AND SOUTH ASIA

CIA/RR IM-418

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THE COMMUNIST ECONOMIC CAMPAIGN
IN THE NEAR EAST AND SOUTH ASIA

Summary and Conclusions

Recent events suggest that, earlier this year, Moscow ordered a program of economic penetration of the Near East and South Asian countries. In recent months the Soviet Bloc has moved from a series of modest and vague offers of technical aid and economic credits to the threshold of more substantial economic ventures. While Czechoslovakia apparently has been chosen to spearhead the arms program in the Arab world, the economic penetration of southern and southeastern Asia appears to be a Sino-Soviet Bloc-wide effort.

Although high-level coordination of the over-all program is apparent, a degree of competition among the satellites has developed at lower levels. The range of Communist activity was indicated by Soviet Ambassador Solod in Cairo, who stated: "We will send economic missions, scientific missions, agricultural missions ... and any other kind of mission you can imagine that will help these countries."

In comparison with US aid to underdeveloped countries, the over-all program of the Sino-Soviet Bloc will, on the whole, be quite modest. However, the manner in which it is being offered, the terms of repayment, and the skill in selecting the countries and projects involved clearly indicate that the Bloc is seeking to gain the maximum political advantage. Some of the deals and offers have the effect of fostering increased dependence on the Bloc and of influencing these countries through the long-term presence of Bloc personnel.

I. Nature of the Communist Program.

Receptivity to Sino-Soviet Bloc economic overtures to underdeveloped countries has increased as a result of the recent series

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of trips throughout the Bloc by high-level government officials from these countries. Technical experts as well as diplomats have generally been impressed with Soviet technology and the "sincere" willingness of Communist technicians to participate in local development schemes. In a somewhat typical comment, Major General Sokehy, prominent Indian scientist who recently returned from a 3-month tour of Czechoslovakia and the USSR with a plan to make India self-sufficient in essential drugs with Soviet aid, noted: "It has taken the developed and advanced countries 300 years to reach their present state under the capitalist system. Russia, through a different pattern of society, has come up to their level within the short span of 36 years. Under a similar pattern, China is making very rapid progress."

These underdeveloped countries, involved in ambitious development projects and often burdened with unsalable agricultural surpluses, find a ready market for these surpluses in the Sino-Soviet Bloc in exchange for capital equipment and, more recently, arms. Easy credit terms offered by the Communists are an additional important factor in making it difficult for such countries to refuse Bloc credits. Most Communist offers involve low interest rates (2 to 3 percent) and repayment over extended periods of time in local currencies and local products. The Communist program, attractive as it is to underdeveloped countries, seems assured of continued and growing reception. The following is an account of the more important Bloc contracts, offers, and activities in specific underdeveloped countries.

A. India.

The Soviet bid to build the 1-million-ton capacity steel mill in Bhilai is the most ambitious Communist project undertaken in the Free World to date. Under the terms of the contract signed on 2 February 1955, Moscow will submit detailed plans this December, at which time New Delhi can accept or reject the offer. From the Soviet side there is every evidence that Moscow intends to provide a modern plant, newly designed from the ground up. Reports that the USSR is attempting to pass off used equipment are belied by reports that Moscow has ordered Soviet machine building plants to draw up new plans. India's new Iron and Steel Ministry has reportedly sent its top project officers to Bhilai, and construction of living quarters at the site is apparently nearing completion. Barring some defect in the Soviet plans -- and this seems unlikely -- it will be difficult for New Delhi to reject the offer. The Kremlin's \$95 million credit on easy payment terms of

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nothing down and 12 equal payments in local currency at only 2-1/2 percent interest are not likely to be duplicated in Western money markets. T.T. Krishnamachari, Indian Union Minister of Commerce and Industry, has stated that the Soviet steel mill would be built and that he personally was impressed with Soviet technology and technique.

While the steel mill is still subject to final Indian approval, the Soviet Bloc is actively engaged in several construction projects in India. On 18 June 1955 the Indian government announced that Moscow is constructing a diamond mining plant for the Panna Diamond Syndicate, a private Indian company. The fact that the government made the announcement suggests that there is governmental involvement in the deal. Since the Bloc has no indigenous source of industrial diamonds, it is likely that Moscow would accept payment for the project in diamonds. It is estimated that the cost of the project will exceed \$6 million.

Since early spring of 1954 the USSR has also offered to supply India with a cement plant and with aid in the construction of a soda ash plant and a coal washing plant.

Seven Soviet experts arrived with Premier Bulganin and Party Secretary Khrushchev in mid-November to advise New Delhi on exploration and development of the oil industry. The USSR has offered to supply equipment as well as technical assistance in India's vast mineral development program. The offer includes setting up a plant to manufacture oil prospecting equipment.

In addition, India has accepted a Soviet offer, made through UNESCO, to aid in establishing a technological institute in Bombay. This assistance will involve sending 15 Soviet experts to instruct at the institute and provides for 20 Indians to receive advanced training in Soviet institutions.

Following Nehru's visit to Czechoslovakia in mid-1955, Prague increased its efforts to gain an economic foothold in India. On 6 November a 13-man Czechoslovak trade delegation led by Foreign Trade Minister Dvorak arrived in India with proposals to participate in India's second Five Year Plan, which begins on 1 April 1956. Although Dvorak pointed out that Czechoslovak capital investment in Indian industry was unlikely since Prague considered this tantamount to economic interference, he stated that technical assistance and capital equipment would be offered.

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The Indian press reported on 10 November that Czechoslovakia offered to build a 1-million-ton steel plant costing about \$210 million to be paid over a 25-year period at a low interest rate. However, on 15 November, Czechoslovak Foreign Trade Minister Dvorak denied these reports and noted that, at the 9 November meeting with Indian Industry and Commerce Minister T.T. Krishnamachari, Czechoslovakia offered to supply only equipment for Indian steel plants.

On 1 October, Prime Minister Nehru accepted a Czechoslovak gift of a twin-engine sports plane.

Hungary is building a copper wire plant at Patiala in northern India. The plant will have a capacity of 170,000 pounds of wire and will be operated, at least initially, by Hungarians. Budapest is also readying offers to construct a cement plant, a caustic soda factory, and a soda ash plant. According to an 18 October report, the Hungarians have offered to build an arms factory in India in exchange for Indian goods including red mud containing 14.5 percent titanium. All of these activities are in the nature of longer term capital credits and are in addition to the regular trade agreement signed on 10 March.

To date, India has contracted for about \$3.6 million of Communist construction projects. The contracts for the Panna diamond mine and the steel mill, which seem certain to be signed in the very near future, would bring the total Communist credits in India to over \$100 million.

The Soviet Bloc penetrated Indian planning circles during 1955. In reaction to an Indian request for experts, the USSR sent a team of high-level economists and mathematicians, including a former GOSPLAN member, to the Indian Statistical Institute in November 1954. Poland sent one of its top economic planners, Oscar Lange.

The Communist advisors have left, but Poland's Oscar Lange reportedly will return in 1956. In addition to Soviet, Czechoslovak, and Polish offers to assist in Indian economic planning, the East Germans have recently stated that they were interested in participating in the Indian second Five Year Plan.

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India's second Five Year Plan places heavy emphasis on the rapid development of industry. In terms of Indian resources, however, the plan is overly ambitious, and there have been hints that New Delhi will request \$1.5 billion in US aid.

In his speech of 19 November welcoming Soviet Premier Bulganin and Communist Party Chief Khrushchev to New Delhi, Indian Prime Minister Nehru said: "We intend to reconstruct our country on the basis of the socialist path selected by us In this respect, we consider that we can learn a great deal on the basis of the great achievements of the Soviet Union" Moscow's plans for India were suggested by Bulganin, who said: "We are prepared to share with you our experience in building industrial enterprises, power stations, and hydroinstallations, in the use of atomic energy for peaceful purposes, and other achievements. At present, all the requisite conditions have been created for the development of trade and economic cooperation between the Soviet Union and India on the basis of real equality of rights and mutual profit."

B. Afghanistan.

Growing economic links with the Sino-Soviet Bloc and Prime Minister Daud's anti-Pakistan policy make Afghanistan most immediately susceptible to Soviet blandishments. During 1954, Prague extended \$5 million credit and the USSR approximately \$6.8 million credit to Afghanistan. Under Czechoslovak credit, one cement plant is under construction, while negotiations are being carried on for a cannery, a glass factory, and a briquette plant. Czechoslovakia reportedly has given another credit of \$10 million and may offer a further \$5 million. Under Soviet credit, gasoline and grain storage facilities, a flour mill and bakery, and roadbuilding projects are completed or are in the final stages of construction. A gasoline pipeline into Afghanistan from the Soviet border still is under discussion.

Although the Soviet interest rate is unknown, the Czechoslovaks have extended credit at an interest rate of 3 percent, repayable in Afghan exports. (The US Export-Import Bank loans for the large Helmand Valley irrigation and power project have been at 3-1/2 and 4-1/2 percent.)

In August 1955 there were 127 Soviet technicians reported in Afghanistan. Reports persist of more Soviet offers, including a hospital, university teachers and equipment, and water systems. The USSR reportedly has offered to take over the Helmand Valley project, finish construction, and pay off the US loan.

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As a direct result of Afghanistan's quarrel with Pakistan, improvement of roads leading to the USSR is being rushed, and a new Oxus River port is being developed. Increasing amounts of Free World - Afghan trade reportedly are now being shipped through the USSR more quickly and at the same cost or less than by the old route through Pakistan. Afghanistan has asked the US firm of International Harvester to ship trucks through the USSR. In addition, Bloc arms -- probably under the \$3 million cash deal with Czechoslovakia -- reportedly are being delivered.

C. Egypt.

The acceleration of Sino-Soviet Bloc activities in the Near East, and particularly Egypt, leaves no doubt that this area is now a prime target for Soviet penetration and neutralization. Although there have been offers of credits and technical assistance to several Arab countries, apparently Egypt has been given first priority.

Soviet Ambassador Solod in Cairo first indicated in late May that Moscow would supply Egypt with arms in exchange for cotton. Reports received in October and November suggest that the total Egyptian arms purchases from the USSR, Czechoslovakia, and Poland may exceed \$140 million. Repayment is to be in Egyptian goods spread over a period of several years.

Although the purchase of Soviet Bloc arms and the use of Bloc technicians will obviously provide opportunities for short-term penetration, Egypt's driving ambition to construct the TVA-like \$1.3 billion Sadd-el-Aali project (the Aswan High Dam complex) and the frustration which Egypt feels that she has experienced in trying to obtain Western finance provide the USSR an opportunity for even longer range exploitation.

Following the public announcement in October of the Soviet offer to build the Aswan High Dam, the Egyptian ambassador in Washington said that the USSR had suggested a 30-year loan for an unspecified amount at 2-percent interest payable in Egyptian cotton and rice. The estimated cost of the dam is approximately \$480 million. Equipment worth \$275 million would have to be imported. By providing equipment and technical assistance, the USSR could create at Aswan an enormous monument to Soviet industry in the Middle East.

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In addition to the arms deal and the offer to supply the equipment for the Aswan High Dam, countries of the Soviet Bloc are known to have signed contracts for capital construction projects worth an estimated \$3.35 million. If Egypt accepts the Soviet offer for the Aswan High Dam, total Bloc credits to Egypt would exceed \$415 million.

D. Additional Bloc Activity.

The Communists are making new offers for arms and capital construction almost daily in other Free World countries. Syria is on the verge of signing a contract for Soviet Bloc arms which may reach \$10 million. Jordan, Yemen, and Saudi Arabia reportedly have sought or have been offered Bloc arms.

The Sino-Soviet Bloc has used trade to encourage neutralist sentiment in Egypt and Burma during the past year by contracting to take a large part of their cotton and rice surpluses. These mounting surpluses had become a major economic problem in both countries.

Sino-Soviet Bloc trade with the Near and Middle East has increased substantially this year -- for example, Soviet trade alone grew 28 percent for the first 6 months of this year compared with a like period last year. This growth occurred despite the continuing contraction of Soviet trade with the Free World generally.

II. Size of Effort.

The estimated value of Communist credits to Free World countries may well reach \$400 million within the next 6 months.* This figure includes known contracts for arms, firm deals for nonmilitary credits and projects, and only firm Communist offers which seem most likely to be accepted. It does not include additional reported credits about which the outcome is in some doubt. Should Egypt accept the Soviet offer of about \$275 million worth of goods and services to help with the Aswan High Dam project, the total of Communist credits granted for arms and construction projects would then be about \$700 million.

Besides arms deals, contracts have been signed and work is actually under way on projects using Bloc credits, personnel, and equipment to the amount of \$43 million.

* See the Appendix, p. 8, below.

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APPENDIX

ESTIMATED VALUE OF COMMUNIST CREDITS TO FREE WORLD COUNTRIES

Million US \$

Known Signed Contracts Including Projects Under Construction		Known Offers Which Seem Likely to Be Accepted	
Country	Project	Value	Country
Czechoslovakia	Suspension bridge	1 a/	USSR
Czechoslovakia	Thermal plant	0.6 a/	USSR
Czechoslovakia	Cement plant	2 a/	USSR
Hungary	Wire plant	0.05 a/	
		<u>3.65</u>	
	Estimated total India		<u>106.65</u>
<u>Afghanistan</u>			
USSR	POL storage tank	0.6	USSR
USSR	Storage tanks	0.6 a/	
USSR	Silos, flour mill, bakery	3.5	
USSR	Roadbuilding, streetpaving	2.1	
Czechoslovakia	Cement plant	1.5	
Czechoslovakia	Balance of credit	3.5	
		<u>11.8</u>	
	Arms deal		<u>3</u>
	Estimated total Afghanistan		<u>15.5</u>
			<u>0.7</u>

a. Estimated.

Million US \$

Known Signed Contracts Including Projects Under Construction Known Offers Which Seem Likely to Be Accepted

Country	Project	Value	Country	Project	Value
<u>Egypt</u>					
Czechoslovakia	Shoe factory	0.1 a/			
Hungary	Bridge	3 a/			
East Germany	Transformer distribution station	0.25 a/			
		<u>3.35</u>			
			Arms deal	<u>140 a/</u>	
			USSR offer--Aswan High Dam b/	<u>275 a/</u>	
			Estimated total Egypt	<u>418.35</u>	
<u>Iran</u>					
Czechoslovakia	Sugar factory	3 a/			
	Estimated total Iran	<u>3</u>			
<u>Syria</u>					
Czechoslovakia	Sugar refining plant	3 a/	Poland	Railroad	65 a/
East Germany	Cement plant	1.3	Bulgaria	Hydroelectric turbines and generators	0.25 a/ 0.67 a/
		<u>4.3</u>		Power plant	<u>65.92</u>
	Arms offer from Czechoslovakia	<u>10 a/</u>			
	Estimated total Syria	<u>80.22</u>			

a. Estimated.

b. Offer may be accepted only if Western financing fails to materialize.

Million US \$

Known Signed Contracts Including Projects Under Construction Known Offers Which Seem Likely to Be Accepted

Country	Project	Value	Country	Project	Value
East Germany	Sugar refining plant	13	Rumania	Cement plant	5
Czechoslovakia	Radio factory	0.6 a/	Hungary	Electric power plants	1 a/
Czechoslovakia	Pharmaceutical plant	3 a/			
		<u>16.6</u>			<u>6</u>

Indonesia

Estimated total Indonesia 22.6

Turkey

USSR	Wheat mill	3.5 a/
USSR	Macaroni factory	0.02 a/
USSR	Brick factory	1.6 a/
Czechoslovakia	Thread factory	1.2 a/
East Germany	Electrical materials plant	0.136
East Germany	Spinning mill equipment	0.95
Hungary	Power plant	0.15 a/
		<u>7.556</u>

Estimated total Turkey 7.556

a. Estimated.

Million US \$

Known Signed Contracts Including Projects Under Construction Known Offers Which Seem Likely to Be Accepted

Country	Project	Value	Country	Project	Value
<u>Lebanon</u>					
			East Germany	Cement plant	1
			Czechoslovakia	Porcelain factory, crystal factory, glass factory	1 a/
			Hungary	Cement plant	1 a/
					<u>3</u>
	Estimated total Lebanon				<u>3</u>
<u>Sudan</u>					
			East Germany	Cement plant	2.5 a/
			East Germany	Sugar factory	0.65 a/
					<u>3.15</u>
	Estimated total Sudan				<u>3.15</u>
<u>Saudi Arabia</u>					
			East Germany	Cement plant	5 a/
	Estimated total Saudi Arabia				<u>5</u>

a. Estimated.