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Soviet Economic Growth, Resource Use, and Economic  
Relations with Underdeveloped Countries

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The struggle of the underdeveloped countries to acquire the funds, the capital goods, and the technical services that are needed for economic betterment has commanded the attention of Soviet leaders to an unprecedented degree in recent years. Economic aid has been offered to several underdeveloped countries and trade has been enormously expanded with most of the newly independent countries in Asia and Africa. The publicity attending the quite modest offers of assistance has generated a widespread belief that the USSR is contributing substantially to the solution of the problem of world poverty. In fact the USSR and the other nations in the Communist orbit have extended only about \$1.8 billion (of which only about \$500 million has been utilized) in economic and military credits and grants to only 12 underdeveloped countries since the first credit was extended about two years ago. In comparison, the U.S. during the 2 fiscal years 1956-57 provided foreign military and economic aid funds to underdeveloped countries amounting to more than \$5.5 billion. Thus the scope and magnitude in the present Soviet economic assistance are considerably smaller than that of the U.S. If U.S. private investment were included the comparison would be even more striking. Moreover, Soviet trade--including that of the Satellites and China--with the underdeveloped countries was only \$1.5 billion in 1956, compared with nearly \$10 billion for the U.S.

Appraisal of total aid figures, however, does not provide the basis

for a realistic judgement of the relative effectiveness of the U.S. and USSR economic policies in the underdeveloped areas, for it does not reflect important differences in the aid programs of the two countries. First, the U.S. devotes a significantly larger proportion of its total aid to military assistance than does the USSR. Of total U.S. aid to underdeveloped countries, about three-quarters is directly or indirectly related to our military program, while only one-quarter of Eloc aid is for military purposes. Second, although the U.S. aid is global in nature and covers a considerably larger number of countries (35), U.S. aid expenditures have concentrated on a different group of countries from those on which Soviet aid has concentrated.

As a result of the strategy adopted by the USSR, Eloc aid commitments in the areas of Soviet concentration have in recent years outstripped those of the U.S. U.S. aid to the 12 countries to which the Eloc has promised assistance amounts to about \$800 million for the past 2 fiscal years. Thus the U.S. contribution to the economic programs of these nations, many of which occupy key positions in terms of world trade in certain important commodities and international politics, is currently running substantially below that of the USSR. Similar conclusions are drawn from data on expert technical assistance and foreign trade. During the first six months of 1957, about 2,000 Eloc specialists and only about 800 U.S. experts were working in these 12 underdeveloped countries. Eloc trade with the 7 of these countries that collect and publish such data was about \$700 million

in 1956, not far below that of the U.S. which was approximately \$1 billion for the year.

This comparison, showing the Soviet program in its most favorable light, has the merit of focusing on the nature of the Soviet Union's very effective strategy, the ability to devote maximum attention to a particular target they consider important and susceptible. In addition the Soviet flexibility that stems in part from the program at present has a paucity of past commitments and the fact that the policy has only recently been initiated. In addition, Soviet leaders have few restrictions on their authority to allocate resources, for they do not have to answer directly to domestic groups that may be affected by their decisions. Thus, almost at will, they can exploit anti-Western sentiment by offering arms credits when neither the U.S. nor Western European countries are willing to provide them; they can offer to buy surplus agricultural commodities when Free World purchases are declining; they can concentrate on spectacular projects which may be pointed to as examples of Soviet largesse, but which may provide less real benefit to the recipient country than a less ostentatious project; they can combine long term loans and long term trade arrangements with an underdeveloped country concerned about raising foreign exchange needed to finance development.

Since the Soviet economic offensive is but a single aspect of Soviet foreign policy, its consequences are difficult to distinguish in the total picture. It seems quite clear, nevertheless, that the USSR has had considerable success in strengthening its position in the Eastern Mediterranean area and has had some measure of success in solidifying neutralist sentiment in both Asia and Africa. Bloc prestige and influence have been notably enhanced and, in particular, the notion that the economic organization of Communist orbit countries is relevant to the solution of the economic problems in the underdeveloped countries has gained new adherents. In view of the apparent success of the economic offensive it will undoubtedly continue to play an important role in Soviet foreign policy.

Continuation of the program will require increasing outlays by the USSR. Although the Soviets probably will center their efforts on particular targets, as in the past, their economic assistance program will almost certainly be expanded both in scope and magnitude. Those countries which have already accepted Soviet economic aid will undoubtedly appeal for more funds; in fact most of the early recipients of Soviet aid have already obtained second loans. Thus a continued flow of assistance to these countries can be expected. Moreover, it can be anticipated that Soviet assistance will be provided to several underdeveloped countries which have not yet accepted it. Leaders in many of these countries have been impressed by the Bloc assistance received by others. Their attitude toward accepting aid from the Communist orbit has been noticeably affected by Soviet achievements in industrial development and science. Since

the USSR will probably accept opportunities as they arise, it can be anticipated that the Soviet economic offensive will expand both in scope and magnitude in the coming years.

Considerable expansion of Bloc assistance to underdeveloped countries, as well as trade, is clearly within the capability of the Communist orbit. Although the Gross National Product of the USSR is only 40 percent that of the U.S., it is large and growing rapidly. At the present rate of utilization of credits, less than 1 percent of Soviet Gross National Product is required for implementation of all Bloc assistance to Free World countries. Even if aid were expanded to \$3 or \$4 billion annually, little more than 2 percent of the Gross National Product of the USSR would be required to fulfill its commitments. Other obligations, such as assistance to Communist China and the Satellites, require some attention and there are indications that Soviet consumers in the future will receive a greater share of available production than in the past. Nevertheless, the USSR should be able to expand considerably its foreign aid and trade program while maintaining a high level of activity in the military and capital goods sectors of its domestic economy.

In the long run the economic assistance program will provide return benefits to the USSR which will offset to some extent any temporary burden on the Soviet economy. In most cases payment on the loans extended is due to begin well within five years after the credits have been utilized.\* Thus the

\* The USSR and the Satellites have extended no grants, although there are indications that some payments on arms credits will be cancelled. Communist China has given grant aid amounting to about \$56 million.

Elcc is scheduled to receive agricultural commodities and raw materials which will be beneficial to it. By embarking on an aid program that will probably not reach a peak for several years the USSR can be relatively sure that the economic burden at any particular time will be at a minimum. Conceivably, the current burden of the program will be little greater at its peak than at present, even though actual extensions of credits may be four or five times greater.

### The Growth and Size of the Soviet Economy

The rapid rise of the Soviet economy to a position only second to that of the United States is one of the most pervasive phenomena of our time. In a period of a quarter century, punctuated by seven years of war and recovery from war, the USSR economy has grown from that of a largely agricultural producer to the world's second industrial power. By 1956 Soviet output of a selected sample of industrial products comprised the following proportions of U.S. output:

<u>Product</u>	<u>Unit</u>	<u>U.S.</u>	<u>USSR</u>	<u>USSR as Percent of U.S.</u>
Electric Power	Billion kwh	724	192	27
Crude Oil	Million Tons <u>a/</u>	353	84	24
Coal	Trillion BTUs	13,800	9,800	71
Crude Steel	Million Tons	105	49	47
Cement	Million Tons	57	25	44
Machine Tools	Billion Dollars	0.9	1.1	122
Freight Cars	Thousand Units	67	40	60
Trucks	Thousand Units	1,100	360	33
Sulfuric Acid	Thousand Tons	14,400	4,320	30
Cotton Fabrics	Million Meters	9,370	5,500	59
Washing Machines	Thousand Units	4,450	200	5
Meat	Thousand Tons	16,300	4,500	28

a. All tonnage figures are in metric tons.



If it is further realized that a larger proportion of U.S. steel, oil, and electric power production is used for consumer purposes while in the USSR a much smaller percentage of output is directed into consumption channels, (11% of electric power in the USSR compared with 30% in the U.S., for instance) the availability to the USSR of these products for investment in manufacturing, mining, and electric power and for military end-items is a larger share of U.S. availability for these same uses than is indicated by the table.\* If it be further understood that Soviet cotton fabrics are of far lower quality than their U.S. counterparts, the relative neglect of the consumer in favor of growth and defense support becomes apparent from the table.

A more aggregative explanation of the means the USSR has employed to attain its rapid industrial growth lies in a comparison of resource distribution of gross national product. If account be taken of the varying relationship between the value of the ruble and dollar in the three principal end-uses of GNP, the "one-sided" nature of Soviet development becomes graphic. In 1956 Soviet GNP was approximately 40 percent that of U.S. Within this total, Soviet defense <sup>expenditures</sup> expenditures were roughly equal to US. outlays, investment expenditures amounted to about 60% of U.S. outlays for capital goods, but Soviet expenditures on consumption represented only about a quarter of U.S. consumption expenditures, and on a per capita basis, only one-fifth.

The Soviet policy emphasis on growth is made even clearer by consideration of the direction of investment. Although Soviet investment outlays were but 60% those of the U.S., investment in manufacturing, mining, and electric power was almost as large, while that in housing was only a quarter as great and in commercial facilities hardly a tenth the size.

\* An estimate of the Joint Committee on the Economic Report in Soviet Economic Growth: A Comparison with the United States puts availabilities of steel for these purposes at the same level for both countries.

This concentration on investment, particularly within non-agricultural productive activities, has paid off in terms of rapid growth. Between 1950 and 1955 industrial production rose by over 10.5 percent per year, a rate more than double that of the U.S. Gross National Product increased at an annual rate of around 7 percent, or 75 percent above the U.S. rate.

Soviet development has also accorded high priority to two closely related activities, less tangible in nature, that have contributed markedly to rapid economic advancement, education and scientific research. The number of graduates of University-level scientific and technical curricula actually employed in scientific and technical fields now exceeds those so employed in the U.S. Soviet scientific facilities, in terms of financial support, organizational direction, and number and quality of laboratories are generally adequate for the effective use of scientific talent, and in some fields are comparable if not superior to corresponding installations in the West. Soviet scientists have made striking progress over the past few years in many areas of fundamental research: in mathematics, many fields of physics and a few fields of chemistry Soviet performance appears to be about equal in quality to that performed in the U.S. On the other hand, Soviet medical and biological research lags behind that of the West, as does the overall level of industrial technology, largely because of the large lag in the consumer goods field. Thus in those selected fields in which they have chosen to compete -- in military production and in selected areas of industrial production, the quality as well as the quantity of Soviet performance approaches and in a few cases exceeds that of the U.S.

In contrast to rapid progress in industry, from 1928 to 1953 Soviet agriculture was virtually stagnant, except for stimulation of specialized crops, such as cotton and sugar. Although population increased by more than 25% during these years, food availabilities showed no change, implying a serious drop in nutritional standards. Since 1953 there have been significant increases in output of grains, meat, and dairy products, thanks largely to the cultivation of previously untilled marginal lands in Asian areas of the Union. Henceforth further increments in agricultural output will have to be attained by more expensive intensive type investments, such as increased use of fertilizers, drainage of swampy areas, and mechanization of presently technologically backward farming operations. Given in addition the basically unfavorable physical conditions of Soviet agriculture and the apparent irreconcilability of the farm population to the collectivized system of agricultural organization, future food and fiber crop increases will come more slowly than in the immediate past. Khrushchev's numerous and grandiose declarations on surpassing the U.S. in meat and milk production reflect official determination to press agricultural development, even though the goals themselves should be discounted.

The other seriously lagging sector of Soviet development has been in housing. In the past 30 years the Soviet urban population has risen by about 3 1/3 times while urban housing space has less than tripled, implying a decline in housing space per capita. Much of the housing that was constructed was shoddy and subject to rapid deterioration. Within the last year the Soviet leadership has taken firm measures to remedy this neglect by allotting additional investment resources to housing at a time when such

allocations to industry have been reduced below originally planned levels. Recent official declarations affirm continuation of a much heavier stress on housing construction than in the past.

Foreign trade has not bulked large in the autarkic Soviet economy, comprising only about half the proportion of GNP it has represented in the United States. Much of the largest portion of trade is with the European Satellites and Communist China. Economic assistance to other countries of the Soviet Bloc and to underdeveloped nations of the Near East and South Asia total less than one percent of GNP and largely take the form of exports for which the USSR has a distinct comparative advantage.

The decision on the part of the Soviet leadership to accord a higher priority to consumption through larger allocations of investment to agriculture and housing will contribute to reduced industrial growth rates. In addition the regime is faced with problems of increasing cost in the production of industrial raw materials. In spite of these retarding factors, it is expected that Soviet industry will continue to grow at nearly twice the rate obtained by U.S. industry since 1950 and Soviet GNP will rise at rates 50-75% above those of the U.S. This projection implies that the USSR will be able to maintain and increase its present rate of military output and at the same time permit a significant rise in consumption levels at only a modest sacrifice of its past unusually rapid rates of growth for both industry and the economy as a whole.