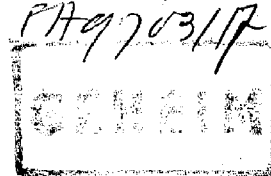


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Land: Sino-Sowjet Blok.
Onderwerp: The Bloc economic offensive - progress, problems, potential.

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Verzonden aan: de Minister van Buitenlandse Zaken.

Aan Zijne Excellentie Prof. Dr L.J.M. BEEL
Minister-President

Plein 1813 no. 4

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REVIEW: THE BLOC ECONOMIC OFFENSIVE--PROGRESS, PROBLEMS, POTENTIAL

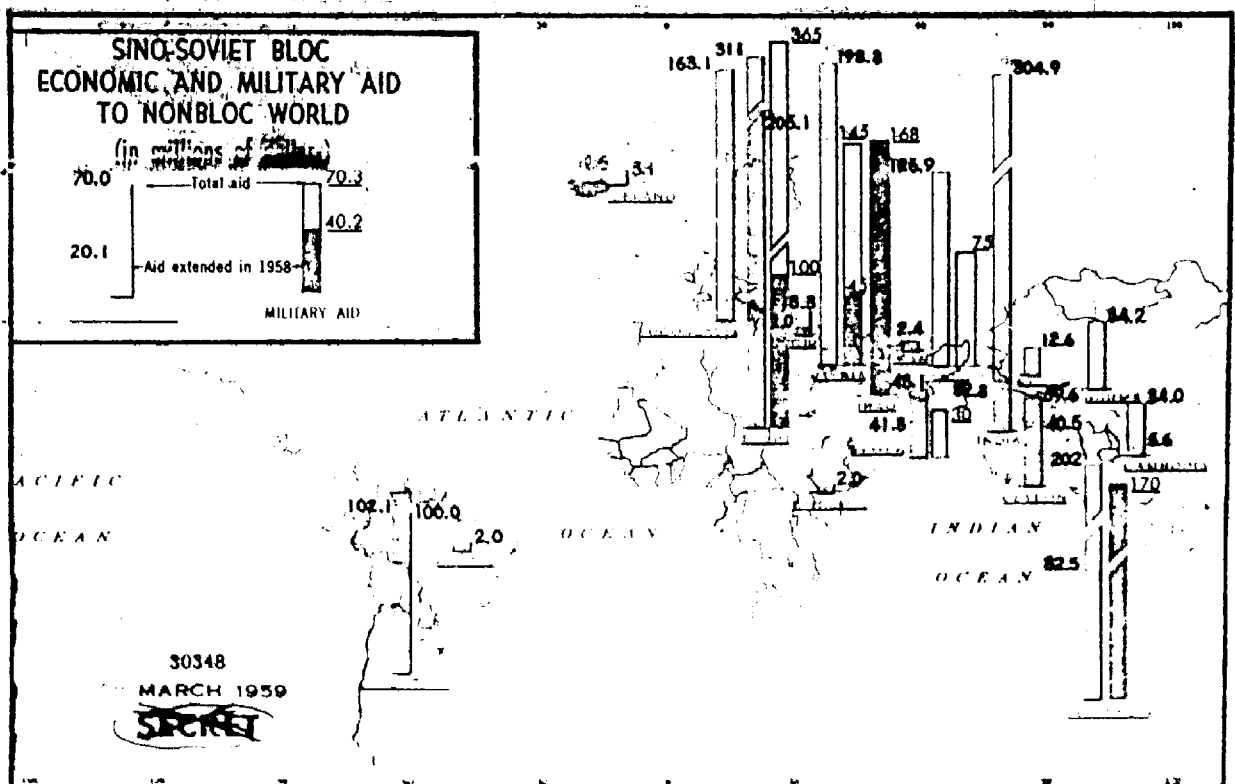
Sino-Soviet bloc economic and military assistance to the non-bloc world passed the \$2.5 billion mark in 1958. New assistance granted in 1958 reached \$1 billion--the largest amount in a single year, since the program began five years ago.

The bloc continued to exploit political and economic difficulties to conclude new agreements and at the same time maintained a level of implementation of existing agreements apparently satisfactory to most recipients. About \$1 billion of the bloc aid granted since 1954 now has been drawn, of which 60 per cent has been used for military equipment. Free world underdeveloped countries have actually used less than \$275,000,000 worth of bloc economic aid. Yugoslavia accounts for over \$130,000,000 worth of the bloc economic credits drawn.

Progress: The scope of the bloc aid program was broadened in 1958, but only three countries were added to those receiving credits. Iraq accepted a major Soviet military aid program, Iran received a small Polish credit for a sugar factory, and Ethiopia accepted bloc financial assistance for construction of a hospital. Argentina, which in 1955 accepted a small Czech credit for a coal-washing plant, in 1958 became the first South American country to accept a large bloc credit--a \$100,000,000 loan for development of its oil industry.

Other aid agreements negotiated in 1958 include the \$100,000,000 Soviet loan for construction by bloc technicians of the first phase of the Aswan Dam, large new military credits for the UAR, Soviet and Chinese economic credits for Yemen, additional Chinese and the first Soviet economic aid for Ceylon, and a large Chinese and Soviet military credit and Chinese and Polish economic loans to Indonesia.

Over 4,000 bloc technicians were active in underdeveloped countries in 1958, as compared with 2,500 during 1957. The increased number is largely accounted for by economic specialists.



For the first time, large numbers of Chinese personnel have participated in this program. Several hundred are believed to be in Yemen working primarily on road development.

Bloc economic specialists engage in a wide variety of economic and military activities, including construction work, training, equipment maintenance, geological surveys, mineral exploitation, and economic planning. The bloc also has a well-developed program under which students from the underdeveloped countries are trained in the bloc. About 3,200 students, workers, and military specialists now have received such training. It includes instruction in the use of bloc arms, military tactics and strategy, the training of workers for bloc-constructed projects, and advanced education for students from free world countries.

The Soviet bloc's implementation and administration of its aid program during the past few months reveal that it will continue to be a major factor in Communist attempts to influence the underdeveloped areas. Cooperation and coordination between the USSR and the East European satellites in the economic offensive is growing.

The USSR, with its greater prestige, negotiates agreements and provides major credits, while actual implementation is frequently assigned to the European satellites. This technique enables the Soviet Union to exert maximum control over the bloc economic program in the underdeveloped areas, to wield substantial influence on economic development within recipient countries, to introduce and expand satellite activities, and to bring the combined economic strength of the satellites and the Soviet Union to bear in each target country.

Sino-Soviet bloc trade with the rest of the world for the most part has not registered any significant increase in value during the past year. Partial statistics now available for trade in 1958 reveal that while the volume of the bloc's purchases increased, falling prices of raw materials from the underdeveloped countries--the bulk of the bloc's imports--is keeping the value of such purchases at previous levels. Trade with the bloc, however, continued to win acceptance in the underdeveloped areas. As a principal feature of its trade program, the bloc continues to offer in exchange for surplus agricultural commodities, goods normally bought by underdeveloped countries for scarce hard currencies. The bloc also expanded its program of direct imports from primary producers rather than through West European middlemen as had been the practice.

Problems: While the bloc's five-year old economic offensive is forging ahead, changing political and economic situations, Soviet economic pressures in its relations with its more developed trade partners, and abnormal sales in world commodity markets may complicate its operations. Perhaps most important, the operation of the aid program--originally lauded as without "strings"--has proved to be tied substantially to a country's pursuit of policies acceptable to the bloc.

The bloc's ideological conflict with Yugoslavia, which resulted in the virtual cancellation of unused credits, has not passed unnoticed in the underdeveloped world, although most free world recipients of bloc aid regard it as a special case. The equally flagrant use of economic pressure to topple the Finnish Government in late 1958 and recent economic as well as political threats to Iran again expose the potential danger of too close economic involvement with the USSR.

During the early years, Soviet aid activity was largely limited to the negotiation of attractive long-term, low-interest credit agreements devoid of complicated financial and other conditions. More recently, hindrances have appeared in the implementation of these agreements. In an attempt to take advantage of rapidly changing political conditions in the Middle East, the USSR granted military and economic aid to Iraq but thereby strained relations with Cairo. While Soviet economic support of the UAR continues, recent agreements reportedly have been concluded only after stormy, protracted negotiations. Nasir also has complained that the implementation of the Soviet aid program lags.

In Burma, internal economic difficulties and a change of government have caused Rangoon to eliminate some Soviet projects and to request that those remaining be on a grant basis. Cambodia, in a similar action, refused a \$12,500,000 interest-free, 40-year "loan" on the basis it could accept only grants.

The Soviet bloc has thus far resisted giving aid on a grant basis, probably largely because economic ties through such aid have a less lasting effect than loans, for which contacts are maintained at least during the term of repayment. Peiping, however, has made grants to Cambodia and Nepal. Other countries, such as Nepal, which need outside assistance but do not wish to become involved in the East-West struggle, have declined or minimized the acceptance of bloc aid by appealing primarily for grants.

With construction activity now under way in several countries, the quality of bloc aid projects has been criticized. The East German-built sugar mill in Indonesia has never functioned properly despite the withdrawal of the original technicians and the assignment of a new engineering force to the project. Complaints also have been made that the Soviet-built Afghan bakery complex is not satisfactory.

The Sino-Soviet bloc itself has complained of a lack of cooperation from aid recipients. In Yemen, China has found it necessary to send several hundred semiskilled workers to build roads, probably as a result of Yemeni inefficiency. Bloc personnel there have difficulty in finding quarters, and the Imam frequently refuses to make domestic currency available to the foreign workers.

The bloc's trade program also has suffered setbacks and encountered resistance. Singapore and Malaya countered Chinese Communist price slashing by imposing controls on imports of Chinese goods, and Malaya proposes to end unorthodox financing of Chinese goods by closing local branches of the Bank of China. Brazil has asked for ironclad assurances that coffee sold to the bloc will not be re-exported to its traditional cash-paying customers. Other underdeveloped areas have protested that unregulated sales of metals by the USSR have seriously hampered their foreign exchange earnings.

Potential: Despite these setbacks and hindrances to its economic offensive, the Sino-Soviet bloc's program of providing long-term, low-interest loans and bartering manufactured goods and fuels for surplus commodities is still attractive to many areas where bloc aid and trade programs are not yet under way. The drive has been limited primarily to the Middle East and Asia, with incursions elsewhere only in highly favorable situations.

The bloc is expected to continue to expand its efforts in Asia, but there is evidence that long-range plans now are being readied for an assault in Latin America. This drive probably will not chiefly rely, as it has in the past, on grasping at momentary economic and political fluctuations, but will be based on long-run developments there. Although some satellites have conducted fairly steady small-scale trade with several Latin American countries, the periodic bloc "drives" have consisted mainly of poorly coordinated trade offers and indefinite aid proposals.

The bloc's economic activity in Africa does not yet bear the marks of a well-planned assault. Fast-moving political events have been exploited, but few economic inroads have been made. At the time of Ghana's independence, the USSR bought large amounts of Ghana's cocoa, but later virtually abandoned the market. The Sino-Soviet bloc, however, is likely to follow up its present flurry of political attentions to the newly independent states with economic programs reflecting the bloc's past five years' experience in Asia.

The USSR is placing more emphasis on its economic campaign in the underdeveloped countries, and the bloc's capabilities are adequate to support a substantial expansion of this offensive. Demand for raw materials produced mainly in the less-developed countries is growing, and their corresponding demand for equipment is increasingly being met by machinery exports from the bloc. Furthermore, strongly nationalist elements in underdeveloped areas are supporting the acceptance of bloc assistance rather than foreign private investment in basic industries and resources.