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AC/89-D/20(Revised)

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY  
THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC

Note by the Secretary

The attached revision of document AC/89-D/20, incorporates changes agreed at the meeting of the Committee on 24th April, 1958, as well as written changes submitted subsequently by delegations.

2. As agreed at the meeting, <sup>(1)</sup> the delegations are invited to submit any further changes on this revised paper within ten days, after which it will be submitted to the Committee of Economic Advisers.

(Signed) Ü. ÜSTÜNDAG

Palais de Chaillot,  
Paris, 8Vie.

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(1) AC/89-R/26, paragraph 4(b)

THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC<sup>(1)</sup>

Note by the International Staff

Summary

Sino-Soviet Trade and Aid by Areas

1. After a period of relative quiet in the first half of 1957, the communist countries have concluded a series of important economic agreements with a number of underdeveloped countries. From October 1957 to March 1958, the Sino-Soviet bloc extended new credits, amounting to over \$500 million. This brings to \$1.9 billion<sup>(2)</sup> the total credits and grants for military and economic purposes given in the past four years, of which over one quarter has so far been drawn upon.

2. The communists have continued to be most successful in the Middle East, but activity has been increasing on a wide front. There have been large-scale credits to Syria and Egypt<sup>(3)</sup> and smaller ones to Yemen. It is not yet clear whether the creation of the United Arab States<sup>(4)</sup> will affect the Soviet credits already granted. The implementation of the Syrian credits has been held up, but, it does not seem that the USSR is considering withdrawing its offer. The attempt to arrange a barter and aid deal with the Sudan who was having difficulties in selling her cotton, has fallen through. In Asia, Ceylon and Burma have received loans, and India is being granted some credits from satellite countries. The Indian and Indonesian Parliaments have recently ratified the loans offered by the USSR in 1956.

3. The USSR has made offers to many countries in her attempt to broaden the economic offensive. The Russian Delegate to the Afro-Asian Solidarity Conference in Cairo in December 1957 is reported to have made a sweeping offer of credits and technical assistance; a month later, a similar offer was made by the Russian Delegate to the Bangkok meeting of the UN Economic Commission for Asia and the Far East. The Soviet bloc has also delivered ten ships to Indonesia to replace Dutch ships engaged in transportation, which were withdrawn following the seizure of Dutch holdings. Bulganin's offer of economic assistance to all Latin-American countries in 1956 was repeated by Khrushchev in an interview last November, and several of those countries are now

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- (1) This report brings up to date information contained in C-M(57)116, issued on 21st August, 1957.  
(2) This includes \$464 millions of credits extended to Yugoslavia.  
(3) See C-M(57)147, 10th December, 1957.  
(4) United Arab Republic (Egypt and Syria) and Yemen.

showing some interest.

4. The USSR has once again been offering to buy certain raw materials that are in surplus in some underdeveloped countries and are needed in the Sino-Soviet bloc. Recently, there have been Soviet purchases of Chilean copper wire and nitrates, and offers to buy Colombian coffee.

5. Apart from these penetration activities, trade between Eastern and Western Europe continues to expand.

Other Aspects of the Economic Offensive

6. The USSR has recently become more involved in world commodity markets; Russian sales of tin in the last few months of 1957, at a time when the market was weakening, aggravated the situation. Sales of Russian aluminium at a slight discount on world prices have caused concern to some producers.

7. Aid from the Sino-Soviet bloc to the underdeveloped areas still remains only a small fraction of similar aid given by the West. Western countries have been lending and donating to, or investing in, underdeveloped areas about \$3.5 billion per year(1). Nevertheless, the Sino-Soviet bloc, by singling out countries most receptive to aid, and by concentrating on spectacular projects, gains influence far out of proportion to its outlay of funds. In its dealings with underdeveloped areas, the Soviet bloc has the advantage of appearing as a new and alternative source of capital. By granting credits and reinforcing its programme of propaganda, including trade fairs, the Soviet bloc has advanced its general purpose of propagating an image of the USSR as a supporter of the nationalistic and economic aspirations of the underdeveloped countries. In specific countries it has also increased considerably its goodwill and influence. Communist trade with many underdeveloped countries has risen sharply in the past three years, and the extension of credits to some of these countries has tied them closer to the Sino-Soviet bloc.

8. It is apparent that the economic offensive is not a heavy burden to the Sino-Soviet bloc and could be expanded. Arms credits to date total \$380 million; but since they apparently came from obsolescent stocks, and, in view of the raw materials received in exchange, these transactions must have netted an economic gain for the bloc. No more than \$200-\$300 million of the economic credits have been drawn upon through 1957.

9. The USSR has extended the greater part of the credits. These are normally for the purchase of goods and services in Russia

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(1) OEEC C(57)240, 12th December, 1957.

(and in some instances in other bloc countries) and are repayable in goods and/or convertible currency. Interest rates are usually 2½%, and the repayment periods extend to twelve years or more. Some of the European satellites, on the other hand, have been lending on a more commercial basis, mainly for the purpose of encouraging the underdeveloped areas to purchase machinery. Communist China has also participated in lending activities, especially to Asian countries. She has given credits and grants totalling almost \$100 million to Burma, Cambodia, Nepal, Ceylon, Indonesia, Egypt and Yemen. This demonstrates that China, despite a shortage of capital, is determined to exert her influence in Asia.

10. Most of the credits extended in the past six months have been for economic, rather than military, purposes. The technical aid programme associated with these loans has become impressive - there may be something like 2,000 Soviet bloc technicians serving in underdeveloped areas for periods of at least one month. Included among them are approximately 500 military technicians.

11. The soviet bloc has shown great interest in oil operations in underdeveloped areas. The USSR has encouraged the rise of elements in the Middle East which are embittered against the West and which have secured positions of control over the normal transport routes for Middle East oil; Russian influence has gained most in Egypt and Syria. At the same time, Russian propaganda has also been aimed at the oil-producing states, with a view to undermining the popularity of the present regimes. Biased comparisons are made between the profits of the oil companies and the royalties they pay out, and the oil companies are pictured as exploiters. Even if this propaganda does not wholly succeed, the pro-Western governments of the Middle East oil countries may be forced to ask for larger shares of oil revenues, to ward off pressure from their people for nationalisation.

12. The Soviet bloc has offered to build nationalised oil industries in underdeveloped countries and has offered technical assistance and equipment to many countries now prospecting or about to prospect for oil, including Yemen, Syria, Egypt, Afghanistan, Ceylon and Indonesia. Czechoslovakia is building an oil refinery in Homs, Syria, and it has been reported that Brazil and Argentina may be seeking Soviet aid for developing their petroleum industries.

13. Russia, with a growing surplus of oil, has emerged as a major supplier to a number of countries, especially those

with shortages of hard currency. In the Middle East, Egypt and Afghanistan receive more than half of their oil supply, their main source of energy, from the USSR. Morocco will receive oil from Russia under the terms of a recent trade agreement. Uruguay has been offered oil on favorable terms. Russia has been a major supplier to such countries as Finland, Iceland and Sweden.

14. A description of Sino-Soviet bloc moves by country is given in Annex I.

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ANALYSIS BY COUNTRIES

Middle East

1. A complete review of developments in Middle Eastern countries was issued in December, 1957(1). It will be recalled that the USSR had completed negotiations in October with Syria for a credit which was the basis of a general economic agreement; if all of the projects listed in the agreement are implemented, the credit could amount to \$160 million. The credit can be used in any country of the Soviet bloc, and repayment for each project will begin after it has been entirely completed. It has also been unofficially reported that Czechoslovakia will make an offer on similar terms, but no confirmation is available. Czechoslovakia has agreed to postpone for four years repayment on the arms deal with Syria made in 1956(2). Russia has agreed to lend Egypt about \$175 million for economic development. She is reported to have offered Egypt a \$14 million loan in hard currency, to be repaid in one year, and bearing interest at the current bankers' rates, but this offer has not been accepted. Czechoslovakia has offered \$56 million for economic development, while East Germany has given a \$20 million credit for current purchases. Egypt is interested in the development of her oil and other mineral resources, as well as in industrial projects. The Soviet bloc's credits will cover about one half of the foreign exchange costs of the projects planned by Egypt under her five-year plan. It is not yet clear whether the creation of the United Arab Republic will affect the Soviet credits already granted, but it does not seem that the USSR is considering withdrawing its offer.

2. Yemen has accepted a loan amounting to \$16 million from communist China for the purchase of equipment goods. The Russian Ambassador to Egypt has reportedly offered a 15-year loan for \$25 million to Yemen for economic development, as well as \$20 million for arms. The latter is to be repaid beginning in 15 years, at the rate of \$1 million a year. The economic credits are to cover light industry, ports, aerodromes, electrical installations, roads and water projects. The Crown Prince of Yemen has recently taken a trip through Eastern Europe and China, and new discussions on economic relations appear to have taken place. Russia has just concluded an agreement with Yemen, providing for the exchange of diplomatic representatives, commercial exchanges and technical aid. The

(1) See C-1(57)147.

(2) Payment was to have begun three years after the arms were delivered.

Technical aid is probably connected with the possibility of the exploration of oil in Yemen.

5. Soviet attempts to exploit the weak sales position of Sudan cotton seem to have failed. Following a reduction in prices and export tax, sales of cotton to the West increased greatly, and much of the surplus has now been sold. However, the Sudanese Government has approved the principle of accepting Soviet aid with no strings attached. A Sudanese priv. to firm has contracted for an irrigation plant, valued at 2100,000, to be supplied by East Germany.

4. The USSR has continued to press forward with offers of economic assistance to Iran. In the past year, Iran and the USSR have signed a border-river agreement, a three-year commercial agreement and a transit agreement.

#### Africa

6. Ethiopia has recently signed trade agreements with China, Poland, Bulgaria, Czechoslovakia and the USSR, providing for some increase in trade with these countries. Part of the Russian deliveries will consist of crude oil, sufficient to supply 5% of Ethiopia's needs. In 1956, the Sino-Soviet bloc accounted for less than 4% of Ethiopia's total foreign trade. Tunisia has signed trade agreements with Bulgaria, Czechoslovakia, Hungary, Poland and the USSR. These opened up her first direct commercial contacts with the Sino-Soviet bloc. Liberia again turned down an offer for a Soviet trade agreement in the autumn of 1957. Ghana has not signed a commercial agreement with the USSR, but in 1957 the Russians were then troubled their purchases of cocoa compared with 1956, and probably took about 13% of Ghana's total exports. Libya has been offered a 10 million loan from the USSR at a time when negotiations on subsidies are under way between Libya and the UK and the USA.

#### Asia

8. Sino-Soviet bloc economic activity in Afghanistan continues at a high level. Over one-third of Afghanistan's foreign trade is with the communist countries. There is some petroleum exploration being conducted by the Russians, under the terms of a 75 million loan recently granted. Afghanistan signed her first trade agreement with communist China in July 1957.

7. Japan's economic relations with the Sino-Soviet bloc have been mixed on a year basis. The major deals arranged in 1955, when Japanese rice was not selling well, turned out unsatisfactorily, and those with China and Poland have been ended. Trade will

henceforth be conducted in sterling. Burma had built up a credit to the equivalent of \$18 million in its barter trade with the communist countries. In order to use this credit, Burmese business men were issued with import licences for goods from the Sino-Soviet bloc, but little business has so far been done. It is reported that the goods offered have been of poor quality and high priced. Burma has tried, rather unsuccessfully, to arrange a multilateral settlement of her credits with the countries of the Soviet bloc, achieving only one clearance between the USSR and Czechoslovakia. Nevertheless, the communist countries have made some headway in Burma. The Russian agricultural advisers have been achieving successes in their projects; the USSR, Czechoslovakia and East Germany have opened display showrooms in Rangoon; North Korea has signed a trade agreement with Burma; and it is reported that the USSR and communist China have granted credits amounting to \$6.5 million to be used for building some dams and factories. These credits will cover the foreign exchange costs of the projects, and will be repayable in rice.

#### Ceylon

8. The five-year trade agreement with China, which expired at the end of 1957, has been renewed for another five years. The new agreement contains features similar to the old one, i.e. a barter of Chinese rice for rubber from Ceylon. In addition, it is expected that other commodities will be traded, including cotton textiles, steel, cement, tyres and machinery from China, while Ceylon will provide coconut oil. Unlike the old agreement, the new arrangement does not provide for China to pay a premium for the rubber. Instead, China will provide \$15.75 million in free aid, to be used for re-planting rubber plantations. There are unconfirmed reports that China will also provide a textile mill. Czechoslovakia has offered assistance to Ceylon for its nationalised bus services, and extended \$3.4 million for a sugar refinery, while Hungary has offered to build a telephone exchange. Russia has bought tea from Ceylon for the first time since the war, has just signed a new trade agreement, and is to provide help in clearing some jungle. It is also reported that the USSR will assist in the exploration for oil in Ceylon. It was further reported in February, 1958, that Russia has lent \$30 million to Ceylon for hydroelectric and irrigation schemes, for the construction of some factories, and will provide technical assistance. Terms call for repayment in twelve years at 2½% interest.

India

9. In November 1957, India signed a loan agreement with the USSR for 500 million roubles, to be repaid in twelve years at 2 1/2%. The loan will be used for a number of projects, including a machinery plant, a thermal power plant, an optical glass factory, and the development of some coalfields. This loan had been agreed in principle in November 1956. Drawing upon it will begin in 1959. Russia and India have signed an air agreement providing for weekly flights between Moscow and New Delhi. On the other hand, the Russians have turned down an Indian request for an additional \$31 million for the construction of the Bhilai steel plant being built under a previous Russian loan. The Russians have, however, agreed to postpone repayment of the original loan by three years. Rumania has offered to build an oil refinery for India.

10. The shortage of foreign exchange in India has prompted her to arrange a number of schemes calling for deferred payment for imports, or for payment in local currency. East Germany and Czechoslovakia will provide capital goods under such arrangements. The Czechoslovakian credit is for \$24 million and will be used to finance a foundry. India's trade relations with Poland continue to expand, and she is now Poland's second largest customer. The two countries are co-operating in nuclear energy research, and a Polish trade centre was recently opened in Madras.

Indonesia

11. Following the seizure of Dutch holdings, the USSR and Poland provided ten ships to Indonesia, while East Germany promised manpower for running the Indonesian airlines. On 5th February, 1958, the Indonesian Parliament ratified the \$100 million Russian loan offer of September 1956. The proceeds will be used for consumer goods, agricultural, transportation and industrial equipment, as well as the exploration of oilfields. Payment for a substantial number of jeeps which have already been received by Indonesia is provided for under a separate credit arrangement. The Czechoslovakians are building a tyre factory in Malang, Java. Indonesia has signed a trade agreement with Hungary and has purchased some rice from North Vietnam. Communist China has offered a \$20-\$40 million credit to Indonesia for building textile factories and for importing rice and textiles. Work continues on the East German sugar mill project.

Pakistan

12. A trade delegation from Pakistan, in June 1957, visited the USSR, Poland, Czechoslovakia and Yugoslavia, to discuss future trade. It is reported that Pakistan was anxious to sell cotton, jute, hide and skins, and may increase sales to Russia and China. Both the USSR and Czechoslovakia are actively promoting trade in Karachi.

South-East Asia

13. The Chinese agreement of 1956 to grant Cambodia \$22 million worth of goods is being implemented. The Chinese have delivered over \$5 million worth of cement, steel, cotton cloth and yarn, and raw silk. The proceeds of the sales of these goods are being used for purposes of development. Communist China, the USSR, Czechoslovakia and Poland have signed trade agreements with Cambodia, and the USSR has agreed to build a hospital and to give assistance in agricultural research. A proposed deal by Thailand to sell rice to China has not materialised, the Chinese feeling that the price was too high. There are reports that the Russian Red Cross has offered a cobalt unit for the treatment of cancer to the Thai Red Cross.

Far East

14. Japan has signed trade, payments, commerce and navigation agreements with the USSR, but it is not expected that there will be much trade. The fourth Sino-Japanese private trade agreement was signed in March, and provides for a 30% increase in trade over the previous postwar peak. A separate five-year agreement was also concluded recently for the exchange of Japanese steel products for Chinese coal and iron ore.

Latin America

15. After a period of unsuccessful activity by the Sino-Soviet bloc, new developments seem to be taking place in Latin America. Trade reached a peak in 1955, declining thereafter, as the bilateral arrangements of the communists proved unsuitable to most Latin-American countries. A trade mission from China visited Chile, Uruguay, Argentina and Brazil in 1957, achieving little success.

16. Argentina is currently attempting to use trade balances, amounting to \$20-\$40 million, arising from her bilateral trade agreements with the Soviet bloc, but has so far

been unsuccessful. She has renewed trade agreements with Poland, Hungary, Bulgaria, Czechoslovakia and the USSR, and signed an inter-bank agreement with the Soviet Zone of Germany. In January 1958, an Argentine mission visited Eastern Europe, seeking industrial equipment.

17. Brazil sold 10,000 tons of sugar to China, through the intermediary of Cuban speculators, in October 1957. It has been reported that the USSR has offered large-scale aid to the Brazilian state monopoly - Petrolebras - which handles the development of the petroleum industry. Poland has provided steel rails, to be used for transporting Brazilian iron ore. The Russians are buying from Chile 500,000 tons of nitrates worth \$15 million and copper wire worth \$8 million.

18. Colombia, which is concerned about her surplus of coffee, has been conducting trade talks with the USSR. Russia and Rumania have made offers to sell oil below world prices to Uruguay. To assist Uruguay in her payments, attractive credit terms have been made. Russia has been the largest buyer of Uruguayan wool at recent auctions. Cuba has continued to sell large amounts of sugar to the Soviet bloc at world prices. In 1957, the USSR purchased 350,000 tons, and East Germany 35,000 tons. These accounted for about 7% of Cuba's total sugar exports. A further 100,000 tons of sugar was purchased by the Russians in January 1958.

#### Europe

19. Yugoslavia's economic relations with the Soviet bloc have become closer in the past year. Although she had no trade with the Soviet bloc from 1949 to 1954, about one-quarter of Yugoslavia's foreign trade is now being conducted with the bloc, and the assistance projects agreed upon in 1956 are to be carried out. These include the \$175 million aluminium project in Yugoslavia, to be financed jointly by Russia and East Germany, and to be started this year. It had previously been indefinitely postponed during a cold spell in Yugoslav-Russian relations. There is also to be a fertilizer plant and an industrial complex of coalmines, gas works and thermal power plant, to be financed by Russian credits. Yugoslavia has renewed discussions with Rumania about joint development of the Danube, and with Hungary on power plants, ports and banking. She has also renewed trade agreements with the USSR, Poland, Czechoslovakia and Rumania, and higher levels of trade are expected. Yugoslavia now has trade agreements with all European bloc countries and with communist China.

20. Trade between Western Europe and the Sino-Soviet bloc continues to expand, and was about 15% higher in 1957 than in 1956. The United Kingdom had a substantial increase in trade with the USSR.

France has signed a trade protocol with Russia for 1958, calling for a 50% increase over 1957. The Federal Republic of Germany and the USSR have negotiated a trade agreement providing for a doubling of trade by 1960 and allowing for some repatriation of German prisoners of war. Some private German interests have signed a trade agreement with China. Austria and Finland have renewed trade agreements with the USSR. Denmark has signed a trade agreement with China, and France and the United Kingdom have sent delegations there. Sweden has signed her first trade agreement with China, providing for most-favored-nation treatment, and settlement of balances in transferable currency. Spain has signed trade agreements with Poland, Hungary, Czechoslovakia and Rumania. These are her first commercial agreements with communist states. Turkey is reported to have received loans from the USSR for building a glass factory, a caustic soda and calcium plant, and some construction equipment. Greece's trade with the Soviet bloc, especially the USSR, expanded sharply in 1957. The Czechoslovaks are reported to be achieving successes in selling tractors to Greece. Prices are lower, delivery is rapid, servicing is good, and credit terms are more favourable than those offered by western firms.

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TABLE 1

SINO-SOVIET BLOC CREDITS AND GRANTS TO UNDERDEVELOPED  
COUNTRIES, 1st JANUARY 1954 - 31st DECEMBER 1957

(millions \$ US)

COUNTRY RECEIVING LOAN	Bloc	USSR	EXTENDED		Bloc	USSR	OBLIGATED		Bloc	USSR	DRAWN	
			Euro- pean Sattel- lites	Com- munist China			Euro- pean Sattel- lites	Comm- unist China			Euro- pean Sattel- lites	Comm- unist China
TOTAL -												
All countries	1,913.0	1,255.0	597.3	59.7	1,196.9	670.4	466.8	59.7	579.3	234.7	326.7	17.9
<u>Selected countries</u>												
EGYPT	486.9	175.0	307.2	4.7	255.9	-	251.2	4.7	254.7	-	250.0	4.7
ETHIOPIA	3.4	-	3.4	-	3.0	-	3.0	-	n/a	-	n/a	-
SYRIA (1)	286.4	221.5	64.9	-	131.5	53.5	78.0	-	95.0	50.0	45.0	-
YEMEN	3.0	-	3.0	-	3.0	-	3.0	-	3.0	-	3.0	-
AFGHANISTAN	161.1	146.2	14.9	-	84.6	71.2	13.4	-	50.1	41.2	8.4	-
BURMA	41.6	37.4	-	4.2	13.5	9.3	-	4.2	n/a	n/a	-	-
CAMBODIA	22.4	-	-	22.4	22.4	-	-	22.4	11.2	-	-	11.2
CEYLON	19.3	-	3.5	15.8	19.3	-	3.5	15.8	n/a	-	n/a	-
INDIA	272.1	261.9	10.2	-	270.2	261.9	8.3	-	89.2	86.7	2.5	-
INDONESIA	109.4	100.0	9.4	-	9.4	-	9.4	-	7.5	-	7.5	-
NEPAL	12.6	-	-	12.6	12.6	-	-	12.6	2.0	-	-	2.0
ICELAND	4.9	-	4.9	-	4.9	-	4.9	-	n/a	-	n/a	-
YUGOSLAVIA	464.0	304.0	160.0	-	359.5	269.5	90.0	-	54.5	51.8	2.7	-
ARGENTINA	6.1	4.0	2.1	-	2.1	-	2.1	-	2.1	-	2.1	-
OTHERS (1)	18.8	5.0	13.8	-	5.0	5.0	-	-	-	-	-	-

(1) Estimate only

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TABLE 2

SINO-SOVIET BLOC TRADE WITH SELECTED COUNTRIES OF THE FREE WORLD <sup>(1)</sup>  
1955 - 1957

million US dollars

	<u>Total Sino-Soviet Bloc</u>			<u>USSR</u>			<u>European Satellites</u>			<u>Communist China</u>		
	1955	1956	1957 <sup>(2)</sup>	1955	1956	1957 <sup>(2)</sup>	1955	1956	1957 <sup>(2)</sup>	1955	1956	1957 <sup>(2)</sup>
Total	<u>1,232</u>	<u>1,476</u>	<u>1,854</u>	<u>292</u>	<u>403</u>	<u>678</u>	<u>697</u>	<u>737</u>	<u>794</u>	<u>243</u>	<u>336</u>	<u>382</u>
Exports	574	780	849	107	212	267	359	372	390	107	197	192
Imports	658	696	1,005	185	191	411	338	365	404	136	139	190

(1) Including: Iceland, Portugal, Spain, Yugoslavia, Egypt, Ghana, Greece, Iran, Iraq, Israel, Jordan, Lebanon, Morocco, Sudan, Syria, Tunisia, Turkey, Burma, Cambodia, Ceylon, India, Indonesia, Laos, Malaya, Pakistan, the Philippines, Thailand, Vietnam, Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru, Uruguay, Venezuela.

The data are based upon official trade statistics of the Free World countries. Hence, Sino-Soviet bloc exports are c.i.f. and imports are f.o.b.

(2) Annual rate, based on approximately six months' data.

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