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WORKING PAPER

AC/89-WP/76

DN 79/18

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

THE ECONOMIC OFFENSIVE OF THE SINO-SOVIET BLOC
(from 1st July, 1960 till 31st December, 1960)

Sixth Report by the Committee of Economic Advisers (1)
(Draft)

I. MAIN TRENDS AND RECENT DEVELOPMENTS

1. Since the launching of the Sino-Soviet bloc economic offensive in 1954, the bloc has steadily forged ahead with its economic penetration in the underdeveloped countries of the free world. The amount of economic aid and trade has expanded considerably, the number of recipient countries increased and, learning by experience, the bloc has constantly adapted its methods to the political situation in the various target countries. During the early years, Soviet long-term and low interest economic development loans and trade agreements were concentrated on a few Asian countries (2). In the Middle East, the spearhead of the economic offensive consisted of large scale armament deals (3). In Latin America the drive was initiated by the European Satellites offering barter trade agreements, supplemented in recent years by Soviet economic development credits (4). Africa has only recently become a new area for intensive activities. The main emphasis in the bloc economic drive, especially during its initial stage, had been put on trade rather than on aid.

(1) See fifth Report (C-M(60)116).

(2) Up to October 1957 all major Soviet lines of credit had been extended to Asian countries (India: \$100 million in February 1955, and \$126 million in November 1956; Afghanistan \$100 million in January, 1956; Indonesia \$100 million in September 1956).

(3) In September 1955: \$200 million arms agreement under credit extended by Czechoslovakia to Egypt, followed by USSR and Czech military aid agreements with Iraq, Syria and the Yemen.

(4) The first large-scale long-term loan to a Latin American country was extended by the USSR to Argentina in December 1959.

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2. Total bloc trade with the underdeveloped countries of the free world rose in value from \$870.5 million in 1954 to \$2,266 in 1959. But, as trade between the underdeveloped countries and the industrialised countries of the free world during the same period increased simultaneously, by the end of 1959 the bloc share did not exceed 7% of the total trade of the underdeveloped countries with the industrialised countries. The trade drive has been concentrated on a small number of countries; in 1959 trade with the bloc represented more than 10% of the total trade of not more than five countries: Afghanistan, Egypt, Syria, Guinea, Uruguay. Almost half of the fast-expanding Sino-Soviet bloc trade with the underdeveloped countries is still assumed by the European satellites for whom this trade largely corresponds to economic needs. However, the Soviet Union increased its share in bloc trade from less than one-quarter in 1954 to over one-third in 1959.

3. In recent years the bloc economic aid in the form of credits and grants extended, gathered considerable momentum (1). An amount equivalent to more than half the total of bloc economic aid granted during the six years' period 1954-1959 was pledged during the twelve months of 1960. By the end of 1960, \$3.6 billion worth of economic aid had been extended, three-quarters of which by the Soviet Union. Aid like trade was largely concentrated on a small number of countries. Although the list of countries accepting Sino-Soviet bloc aid had been lengthened to include a total of 20 countries, 80% of all economic credits and grants extended since 1954 was accorded to six major recipients only: India 25%; UAR 21%; Indonesia 17%; Cuba 7%; Afghanistan and Iraq each 6%. In addition at least \$ billion military aid credits and grants had been extended mainly to : UAR, Indonesia, Iraq, Afghanistan, Cuba, Guinea, in that order.

4. During the second half of 1960 the most salient aspects of the recent development of the Sino-Soviet bloc economic offensive can be summarised as follows:

(a) from the point of view of geographical distribution

- concentration of the aid efforts on a few countries: Cuba, Guinea, Ghana and achievement of an absolute dominant position in the foreign trade of both Cuba and Guinea;
- renewed efforts of aid and trade penetration in the African countries which attained independence during 1960 and in Morocco and Tunisia;
- largest offer of economic aid ever made by the Soviet Union to a single country reported in favour of Afghanistan;

(1) See Chart 1 page 3.

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- continued economic pressure in other areas and specially on SEATO Asian countries (Thailand and Pakistan); follow up action in India, Cambodia, Indonesia.
- (b) from the point of view of bloc methods
- resumption of large-scale military aid programmes, mainly by the USSR, in Iraq, Guinea, UAR, Indonesia, Cuba;
 - improved co-ordination of economic aid and trade policies within the bloc;
 - increased participation of the European satellites in the bloc economic aid efforts;
 - emergence of China as a source of large interest-free credits.

II. ECONOMIC AID

(a) Credits extended

5. During the six monthly period under review at least \$492.6 million credits and grants have been extended by the bloc distributed as shown in table 1. This amount comes in addition to \$757.1 million extended during the first six months of 1960. The fact that the amount extended during the second half was lower than the corresponding figure for the first half of 1960 can not be considered as indicative of a declining trend since a six months period is too short for drawing any conclusion. Bloc credits and grants extended during the year 1960 amounted to 1,249.7 million indicating an increase of 40% over the corresponding 1959 figure.

(b) Drawings

6. Between the signature of an economic aid agreement and the actual drawing of the credit there is a lapse of time which varies widely from case to case.(1)

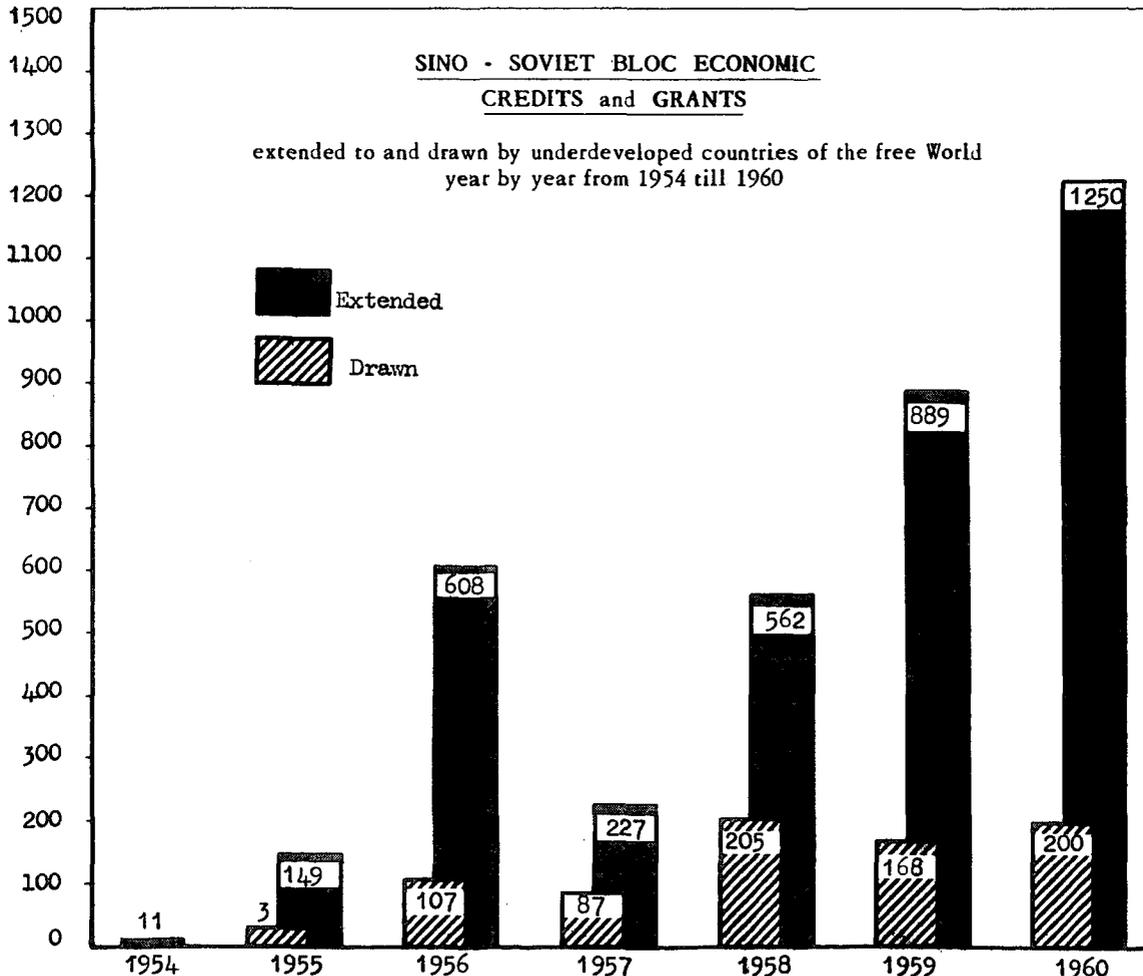
(1) for instance, the \$100 million "line of credit" extended by the USSR to Indonesia in September 1956 had not started to be utilised before Spring 1958, and was still not used up at the end of 1960; similarly, the November 1956 \$126 million Soviet credit to India began to be drawn only in the second half of 1959 and was still far from exhausted at the end of 1960. On the other hand, the comparatively smaller credits extended by the European satellites had been drawn upon at a much faster rate as they were generally allocated to specific projects from the early stage. However, the pace of drawings on European satellite loans will probably slow down, as the satellites revert more and more to the procedure of the "line of credit".

Table 1 - Sino-Soviet Economic Credits extended to underdeveloped Countries
 (1st July - 31st December, 1960)

Recipient Country	Total	Amount in million US \$	Date of Extension
CUBA	125.0	15.0 Hungary	15th Sept. - Dec.
		20.0 Czechoslovakia	28th October
		60.0 China	30th November
		15.0 Roumania	December
		5.0 Bulgaria	"
		10.0 East-Germany	"
		Poland	"
INDIA	125.0	USSR	30th August
GUINEA	63.9	25.0 China	September
		21.5 USSR	"
		5.0 Czechoslovakia	"
		5.0 Poland	"
		5.0 East-Germany	"
		2.4 Hungary	"
GHANA	46.7	USSR	August
CAMBODIA	38.0	China (grant)	26th December
INDONESIA	33.6	Czechoslovakia	August
IRAQ	33.6	Czechoslovakia	23rd October
UAR	16.8	14.0 Hungary	December
		2.8 Czechoslovakia	"
TUNISIA	10.0	USSR	16th November
GRAND TOTAL	492.6		

Million U.S. Dollars

CHART I



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This results from the procedure of "lines of credits" used first by the Soviet Union and increasingly followed by most of the European satellites and China. Under this procedure, the initial credit agreement indicates only the global figure put at the disposal of the receiving country without specifying the final use of the credit. In a second stage, a clearer definition is worked out for the use of the credit in an implementation protocol usually listing projects concerned. In a third stage, contracts are signed between the relevant bloc state export agency and the appropriate organization in the receiving country. Finally, goods and/or services are actually delivered. The "line of credit" gives the receiving country valuable indications for planning purposes of the total amount that may be anticipated for the years ahead. The Soviet bloc, derives propaganda advantages from the repeated publicity given at the various stages of the procedure to the pledged amount of aid.

7. As a whole, the rate of actual utilisation of economic aid extended has, in the past, never exceeded one-fifth of the total accumulated credits and grants. By the end of 1960 not more than \$770 million of the economic credits extended by the bloc since 1954 had been drawn, of which about \$200 million was drawn during 1960. It is to be noted that the amount drawn represents a gross figure, as no data are available on the amount of the repayments. In any case, these repayments must have been so far very small. The graph on page 5 shows economic credits and grants extended during each year and also the yearly drawings from accumulated credits and grants.

(c) Type of projects covered by aid

8. By the middle of 1960, available information showed that about 80% of the total credits and grants extended, had so far been allocated to specific projects. Out of the allocated total more than half was set aside for industrial projects which will contribute directly to the expansion of the manufacturing industry in the assisted countries. This first group of projects ranges in size from small ceramics and textile plants to large steel mills. The second most important sector, accounting for about 20 per cent of the credits and grants allocated includes the building of dams for irrigation and land reclamation, and the construction of hydro-electric power plants. Of the allocated total, 15% was devoted to transport and communication projects and 5% to surveying and prospecting for natural resources and to the modernisation of mining facilities and techniques. The remaining part went mainly to direct financial aid and assistance in trade, leaving 1% for projects in the field of health, education and administration.

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9. During the second half of 1960 there seemed to be a trend towards devoting more attention to medium and small size industrial enterprises especially in aid programmes for Cuba, Guinea, Indonesia and Syria. However, the Soviet bloc programmes still include a number of large-scale projects which are bound to strike public opinion in the receiving countries. Some of these projects have already been completed, for example the Bhilai steel plant in India and the Homs refinery in Syria, both of which were successes for the bloc aid programme. Other major projects under construction are:

- the Aswan dam in Egypt for which certain delays have been reported in the early stages of the work;
- the heavy machine plant at Ranchi in India;
- the Neyveli power plant in Madras, India;
- the Baghdad-Bashra railway in Iraq;
- the 770km. Kameshly-Lakatia railway in Syria.

Other projects under survey include inter alia: the Euphrates Dam in Syria and the great East-West road in Nepal. Further large-scale projects have been included in recent credit agreements.

- the envisaged Bui Dam on the Black Volta river in Ghana;
- a one-million ton capacity steel plant announced in June 1960 for Cuba;
- the proposed bloc participation in the Konkouré river project in Guinea, providing for a large Dam and an aluminium plant.

(d) Sources of Sino-Soviet aid and co-ordination of aid within the bloc

10. The following table shows the distribution of the bloc economic aid efforts among the Sino-Soviet countries:

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Table 2 - Sino-Soviet bloc economic credits and grants extended to underdeveloped countries by donor country during 1960

Donor Country	Total amount extended					
	From 1st January to 30th June, 1960		From 1st July to 31st December, 1960		1960 Total	
	Million US \$	%	Million US \$	%	M. US \$	%
BLOC TOTAL	757.1	100	492.6	100	1,249.7	100
USSR	625.9	83	203.2	41	829.1	66
<u>Total European Satellites</u>	108.7	14	166.4	34	275.1	22
Czechoslovakia	74.0		95.0		169.0	
Poland	31.5		5.0		36.5	
East Germany	3.2		15.0		18.2	
Roumania	-		15.0		15.0	
Bulgaria	-		5.0		5.0	
Hungary	-		31.4		31.4	
<u>China</u>	22.5	3	123.0	25	145.5	12

11. The share of the USSR in the economic assistance provided by the bloc countries fell, during the second half of 1960 to 41% compared to 83% during the first half of 1960 and 75% for the whole period 1954-1959. Correspondingly, the part played recently by the European Satellites and China has considerably increased. In particular China, in spite of her domestic problems, extended in 1960 more assistance than during the entire period starting from the beginning of the economic offensive (\$145 million against \$142 million) and the terms of the Chinese assistance were much more generous than aid given by any other country. The Soviet Union and the European Satellites have constantly stressed their preference for low interest loans over grants, departing only exceptionally from their loan policy(1). The only large economic aid grants reported during 1960 were extended by China(2) \$21 million to Nepal in March 1960, \$38 million to Cambodia in November 1960). In addition China provided several interest free loans(3) : \$25 million to Guinea; \$60 million to Cuba. The loan to Cuba is a very unusual example of large-scale aid extended by a backward country to a much more advanced country enjoying a per capita income about four times higher than its own.

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- (1) The only large-scale USSR grant was given to Afghanistan in 1959 (\$86.6 million).
- (2) Previous Chinese grants include, e.g. \$22.4 million to Cambodia in 1956; \$12.6 million to Nepal in 1956; \$15.8 million to Ceylon in 1957.
- (3) On 9th January, 1961 : \$84 million to Burma.

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12. There is reason to believe that, particularly towards the end of the year, the European satellites and the Soviet Union made serious efforts to improve the co-ordination of their aid and trade programmes in favour of a number of countries, e.g. Ghana, Guinea, Cuba. This may explain partly the relative importance recently gained in bloc economic aid by such countries as Czechoslovakia, Poland, East Germany who have been participating earlier in the bloc aid effort and the emergence of such unusual sources of credit as Hungary, Roumania and even Bulgaria. A recommendation issued in August, 1960 by the secretariat of the Council for Mutual Economic Assistance of the Countries of Eastern Europe (COMECON) reportedly provided for a common and uniform attitude of the member countries in relation to credits, interest rates and payment facilities extended to Cuba, recommending that she should be given the same treatment as members of the bloc.

III. MILITARY ASSISTANCE

13. From the end of 1958 to the middle of 1960, no major development in the Sino-Soviet bloc military assistance was reported, but during the last six months of 1960, bloc military aid to under-developed countries of the free world rose suddenly, and included a number of new countries which had never accepted any sizeable amount of bloc military equipment before, such as Cuba, Guinea, Morocco; at the same time old customers of Soviet bloc military aid, such as Iraq, the UAR and Indonesia, concluded large new armament deals with the bloc. The distribution of the recent military agreements is shown in the following table.

TABLE 3 - BLOC MILITARY ASSISTANCE

1st July - 31st December, 1960

Recipient Country	Date	Donor Country	Amount of expected military equipment million US \$
1. IRAQ	August 1960	USSR	70
2. GUINEA	September 1960	Czechoslovakia and USSR	5 - 6.25
3. UAR	November 1960	USSR	Not available
4. MOROCCO	November 1960	USSR	Not available
5. SUDAN	November 1960	USSR (gift)	Negligible
6. CUBA	December 1960	Czechoslovakia and USSR	40 - 50
7. INDONESIA	December 1960	USSR	275 - 375
TOTAL			390 - 500

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Exact information on the recent bloc military aid programmes is difficult to gather, and it is not always clear to what extent credit may be involved in these deals or to what extent the prices to be paid for military equipment are related to its real value, but there is evidence of a considerable increase in expected deliveries of arms. A conservative estimate of at least \$600 million worth of military equipment will have to be added to the previously indicated figure of \$1,420 million if the recent agreements materialise.

14. When credits are involved in military aid agreements, the utilisation follows the signature of the agreements much more quickly than in the case of economic credits and grants. Reportedly, nearly all of the total of \$822 million worth of military credits and grants extended by the bloc to underdeveloped countries since 1954 had been drawn by the middle of 1960 and repayment had started. The provision of military equipment, a considerable proportion of which has come from stocks of discarded equipment, has imposed only a slight economic burden on the bloc.

IV. Technical Assistance

15. The Sino-Soviet bloc technical assistance is closely related to economic and military aid credits and the number of bloc technicians in the underdeveloped countries illustrates the progress in the implementation of the major aid projects. Towards the middle of 1960 6,720 bloc technicians (of which 1,225 military advisers) were present in the underdeveloped countries. Corresponding figures were:

for 1958 : 3,600 (including 1,065 military advisers)
for 1959 : 6,060 (including 1,445 military advisers)

(a) Civilian technicians

16. Sino-Soviet bloc technical aid covers practically all conceivable types of development work, the main emphasis being on services connected with the construction and installation of plants and equipment supplied by bloc countries, but planning, surveying and technical and economic research are given increasing importance. About 65% of the 5,565 bloc civilian technicians at work by mid-1960 came from the USSR as against 17% from the European satellite countries, mainly from Czechoslovakia, and 18% from China, (nearly three-quarters of the Chinese personnel consisted of labourers sent to the Yemen in connection with road-building).

17. China has introduced in its assistance agreements, e.g. with Nepal, Guinea and Burma, a clause providing that the standard of living of the Chinese technicians shall not exceed that of personnel of the same rank in the assisted country.

China is thus outbidding the Soviet experts and even more the experts from European satellites who cannot adapt themselves so readily to the living conditions in the underdeveloped areas. In the field of technical assistance, China has at the same time been trying to capitalise on anti-white resentment.

(b) Military advisers

18. Since 1956 the number of bloc military personnel in the underdeveloped countries increased and reached its peak at the end of 1959 when 1,510 military advisers were reported. Towards the middle of 1960 the figure dropped to 1,295 reflecting the prolonged hiatus in military agreements between the end of 1958 and the end of 1960. With the resumption of large-scale military aid agreements, the number of military advisers will probably increase during 1961.

(c) Scholarships and Training in bloc countries

19. Nationals of underdeveloped countries who had completed or were pursuing courses of instruction at military, academic and technical training centres in the bloc were estimated to have totalled 9,400 by the middle of 1960. This type of programme was started in 1956, and the countries with the largest numbers of trainees in the bloc countries are the UAR, Indonesia, India and Iraq. The number of African students has recently been increasing quickly: by the middle of 1960, 240 Guineans, 190 Sudanese, 65 Ghanaians, and 15 Ethiopians constituted the first group of African trainees in bloc countries. Recent developments in Africa will further increase their number. Cuba is expected to send a number of students and technicians for training in the bloc countries.

20. The much publicised "University of People's Friendship (now "Patrice Lumumba University") specially established in Moscow for the training and education of a planned number of about 4,000 Asian, African and Latin American students, was officially opened on 1st October, 1960. Only 500 vacancies were available for 1960 while, according to Soviet press reports, about 40,000 applications had been received by the end of September when the University authorities indicated that the deadline of 31st July was to be enforced, thus disappointing large numbers of candidates. Towards mid-October about 300 students from 65 countries were reportedly attending courses. In addition, admission procedures for the new university seem to have been devised in order to avoid the interference of the governments in the selection of the candidates from amongst their nationals. Several countries, including India and Nepal, have reacted by refusing passports to all successful applicants. A number of students from countries such as Kenya and Cameroun are in Moscow against the wishes of their governments. The new university is located near the Moscow State University where about 700 other students from underdeveloped countries are in attendance and where a certain amount of resentment has recently built up against what has been denounced as "racial discrimination".

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V. TRADE(a) Main lines of approach

21. In their relations with the underdeveloped countries the Communists have always stressed the importance of trade as opposed to aid. "The USSR has always maintained the view that foreign credits must never constitute the principal means for developing the economy of a country... The USSR thinks that the expansion of normal trade relations and economic links without discrimination, without intervention in the internal affairs of other countries, without external preconditioning, is an important form of effective economic aid and assistance to the underdeveloped countries".(1) One of the arguments used in persuading the underdeveloped countries that trade relations with the Soviet bloc were advantageous was that Communist countries provide a stable market which is not influenced by recessions as opposed to the free world economic system where purchases of the traditional export goods of these countries fluctuate widely. It appears, indeed, that the bloc countries have often taken advantage of some special emergency situation in underdeveloped countries experiencing difficulties in finding markets for their most vital exports (Burmese rice, Egyptian cotton, Uruguayan wool, Brazilian coffee, etc.) In such situations, the bloc presented the countries looking for markets with long-term trade agreements; however, the continuity in Soviet bloc trading practice has been disappointing in a number of instances.

(b) Fluctuations in Bloc Trade

22. Although the Sino-Soviet bloc had provided generally expanding markets for goods from the underdeveloped countries some individual countries experienced downward fluctuations in their trade relations with the bloc. For instance, Argentina's trade with the bloc showed a drop from 9.3% in 1955 to less than 2.2% in 1959; Burma's trade with the bloc from 17.9% in 1955 to less than 10% in 1959. Bloc trade with the underdeveloped areas increased during 1959 above 1958 figures, except for the Middle East where a 13% decline was the main reason why, on the whole, the level of trade with underdeveloped countries in 1959 remained the same as in 1958. The Middle East accounted in recent years for about 40% of bloc trade turnover with underdeveloped countries. The following table indicates the fluctuations in bloc trade with underdeveloped countries in 1959 as compared with 1958.

(1) Prof. L.A. Fitoni (Academy of Science, Moscow) at a colloquium organized by the "Université Libre de Bruxelles - Institut de Sociologie Solvay". (17th - 21st October, 1960)

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1. In the middle of November 1960, new bloc overtures to Cyprus were reported: Czechoslovakia has proposed a one-year trade agreement including technical assistance, which could later be extended for a longer period, and the USSR has offered, through commercial intermediaries, to purchase the entire Cyprus raisin crop and a large quantity of citrus fruit in exchange for timber. Raisins represent only a small fraction of Cyprus's total exports (2% in 1959), but some difficulties were encountered in finding markets for these products.

IRAQ

2. On 23rd October, 1960, an economic and technical assistance agreement was signed in Baghdad by which Czechoslovakia extended to Iraq credit amounting to \$33.6 million repayable in eight years at 2.5% interest. With this credit preliminary studies are to be undertaken inter alia in the field of oil refining and petro-chemical industries and in thermo- and hydro-electric power generators. Efforts seem to have been made to improve the technical preparation of the projects, and the Iraqi Government appears to have obtained a more effective freedom of choice on projects to be executed. Czechoslovakia is to prepare upon request complete economic and technical studies for any project under this credit, while Iraq remains free to decide on the implementation after receipt of the studies. Czechoslovakia would then provide, install and operate the equipment and guarantee maximum production.

3. This new economic assistance credit is the third of its kind granted by bloc countries since March 1959, when the USSR made the first move by extending a \$137.5 million loan supplemented by a second loan of \$45 million in May 1960. The implementation of the new Czechoslovakian credit will probably be slow as, in its first stage, it covers only economic and technical feasibility studies, but the proposed projects will probably be better prepared than those under the Soviet 1959 line of credit.

4. It is understood that negotiations on the allocation of funds under the recently extended USSR \$45 million additional credit are still going on, although the major part is probably to be allocated to the Baghdad - Basra railway project (including rails and sleepers as well as locomotives, rolling stock and signalling equipment).

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IRAQ (Contd)

5. At the end of October the Iraqi Economic and Planning Council authorised the signature of a contract with the USSR for the construction of a 2,000 kW atomic reactor at Shumayfah and for a laboratory for the production of isotopes. Both projects are covered by a special agreement on peaceful uses of atomic energy signed in August 1959.

6. Progress has been reported on various projects out of the 25 listed under the \$137.5 million USSR line of credit of March 1959; but with the exception of such projects as a broadcasting station completed at the end of 1959, the technical assistance for four tractor stations and a continuing geological survey, most of the projects are still in the preliminary stage of research on technical and economical feasibility. Reports have been submitted to the Iraqi authorities and a certain number of projects will now be entering the planning stage.

7. The first arms deal, signed in November 1958, provided Iraq with at least \$118 million worth of military equipment. Reports were received during the second half of July 1960 revealing Iraqi dissatisfaction with the arms and equipment received from the USSR. There has been some feeling in Army circles that the USSR had passed off to Iraq a certain amount of obsolete armaments, especially discarded artillery weapons. Nevertheless in November 1960 a new flow of deliveries of military equipment started to arrive in Iraq, confirming the rumours that in August 1960 a \$70 million arms agreement had been concluded. Under this new agreement, Iraq is supposed to receive at least 80 medium tanks, four helicopters, a number of MIG-19 jet fighters and 122 mm. howitzers.

8. China, the USSR and East Germany have undertaken to buy from Iraq, during 1960, 110,000 tons of dates valued at over \$11 million. China will take 65,000 tons, the USSR 25,000 tons and East Germany 20,000 tons. (This is about half the total quantity of dates Iraq anticipates exporting this year.) In 1959, Iraq's exports to the bloc were worth \$6 million (or slightly more than 1% of total exports) and in 1958 only \$0.8 million.

SUDAN

9. Recent developments in Central Africa and the strategic geographic situation of Sudan as a gateway to the northern regions of the former Belgian Congo have brought this country in the limelights again.

10. In November 1960, the Sudanese accepted in principle a Chinese offer to provide on a grant basis two 50 kW short-wave radio transmitters. This gift would include generators, antennae, aerials, a two-year supply of spare parts and the sending of some Chinese technicians to Sudan to work out the details of the deal. The acceptance of Chinese equipment and

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SUDAN (Contd.)

experts (in a field where comprehensive aid has already been provided by the United States) and the large Chinese mission in Khartoum emphasise the interest China attaches to that country.

11. In November 1960 the first USSR gift of military equipment consisting of five armoured personnel carriers was accepted by the Sudanese Government.

12. In addition, following the visit of a Sudanese economic delegation to Moscow in December 1960, the Soviets announced that trade between the USSR and Sudan will be doubled during 1961. In 1959, the latest year for which total figures are available so far, the USSR accounted for less than 2% of Sudan's foreign trade, but the first indications available for 1960 trade with the Soviet bloc are showing a marked increase over the 1959 figures. The significance of the recent trade arrangements lies less in the amount of trade expected during 1961 than in the bloc's continuing attempts to strengthen its economic links with that country and the recently less reluctant attitude of the Sudanese Government towards trade relations with the bloc.

UAR (EGYPT)

13. The UAR Central Minister of Economy, commenting on the new budget 1960/1961 in July 1960, made it clear that for the implementation of its 1960-1965 economic development plan the UAR will continue to rely mainly on the Soviet bloc for investment capital and technical assistance while additional free-world assistance will be welcome. Out of a \$1,000 million total of foreign credits obtained by Egypt at the end of July 1960 for its new five-year plan, \$583.2 million had been pledged by the bloc countries, including \$542 million by the USSR and the rest equally divided between East Germany and Czechoslovakia. Most of the bloc credits mentioned in this statement are unused parts of loans extended since January 1958. The free world countries were quoted for less than 40% of total foreign assistance, including: \$125 million from West Germany, \$118.1 million from the United States, \$45 million from Italy, \$30 million from Japan and \$56.5 million from the IBRD.

14. The most recent addition to the list of credits from bloc countries providing economic assistance for implementation of the five-year plan was announced in late December 1960. An agreement has been signed with Hungary under which this country has undertaken to supply both regions of the UAR with capital goods valued at \$14 million, on credit terms. This new Hungarian credit is the second to be extended by that country to Egypt. The rate of interest charged is not yet known, but

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UAR (EGYPT) (Contd.)

it is understood that repayment is to be made in five equal instalments from the date of delivery. It had been suggested earlier that this credit might be used to finance six projects connected with the manufacture of electric light bulbs and steel pipes, refrigeration and food processing.

15. The leading position of the USSR on the list of countries providing assistance in the implementation of the new five-year plan is mainly the result of the two subsequent loans totalling \$325 million which are intended for the Aswan High Dam. In an official report on the progress of work, released in October 1960 by the High Dam executive body, it was stated that all preliminary excavation work had been completed for the provisional dam and that blue-prints of this dam as well as the diversion canals had been drawn up. The report indicated that 62 Soviet experts were working on the project and that 12,000 tons of Soviet equipment had been received by the end of September 1960. One of the main attractions of the Soviet proposal was that the construction of the Dam would take three years less than originally planned by Western experts. According to some Western sources it would seem that since then the pace of progress on this project has slowed down: the accumulated delays at the end of the year amounted to two years as compared with the original targets of the Soviet plan. Among the reasons for this delay the late start of works (which began in January 1960) has already been mentioned. New delays are attributed to the lack of spare parts and maintenance facilities for the Soviet earth-moving equipment, the inability of local sub-contractors to deliver in time the quantities and qualities of the raw materials required for building, and the necessity of training large numbers of unskilled labourers.

16. By the middle of 1960, out of a total amount of \$904 million, including \$315 million of military aid, extended to Egypt by the bloc countries since January 1954, about \$400 million had been drawn for goods actually delivered. Military equipment received in the country at the time accounted for more than \$300 million of the total amount drawn.

17. Under the Soviet \$175 million credit agreement of January 1958, covering 56 identified projects, the USSR was to provide two crude oil distillation units each of 1 million ton capacity. Up to the end of 1960 Egyptian refining capacity depended on the Alexandria plant (with a capacity of 200,000 tons) and the Suez plant (with a capacity of 1.3 million tons). In August 1960 it was reported that Czechoslovakia would take over the commitment as a sub-contractor. The revised project provides only for additional refining capacity, bringing the total capacity of the two oil refineries mentioned above up to 2 million tons per year. As for the building of a shipyard at

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Alexandria, for which a protocol was signed in January 1959, the USSR officially confirmed its pledge in August 1960. The cost of the project has been estimated at \$17.25 million, and the works are to be terminated by 1968.

18. Since the implementation of projects might well gather speed under the new five-year plan, the number of Sino-Soviet bloc experts in the country will probably increase over the total of 485 industrial, agricultural and professional specialists reported to have been in the country at the end of June 1960, thus reversing the declining trend of the number of Sino-Soviet bloc experts in the country after the record figure of 655 experts reported at the end of June 1959.

19. The UAR has been seeking a more balanced distribution between East and West when sending students abroad. More scholarships in Western Europe and America have been accepted, but at the same time training of students in the Soviet bloc has not diminished.

20. It seems that the arms deal which had been under negotiation in Moscow for over two years was finally concluded at the end of November 1960 after the visit to Moscow of the Vice-President of the UAR, Marshal Abdul Hakim Amer, head of the UAR General Military Staff. Soviet arms deliveries had been reported earlier in the year. The total amount of arms to be delivered to the UAR was not disclosed and no indication was given on whether any credit would be involved.

21. A new trade and payments agreement between the UAR and Poland was signed in Cairo on 2nd November, 1960. The agreement is valid for three years and replaces the Egyptian-Polish and Syrian-Polish trade and payments agreements concluded before the UAR merger. UAR exports to Poland will include cotton and manganese. Imports from Poland will be mainly chemicals, machinery and ships. In 1959 the total trade turnover between Egypt and Poland amounted to \$25.5 million. During the first year of the new agreement, trade between Egypt and Poland is expected to reach \$28.4 million and to increase by some 20% during the next few years.

22. In 1960 the Egyptian cotton crop was good and could be sold at advantageous prices, the earnings of foreign exchange from the Suez Canal, now deepened for vessels of 37 foot draught, were the highest ever gained from that source. But the situation with regard to foreign trade and the balance of payments remained difficult, although a large proportion of imports were made on a long-term credit basis, both from the Eastern bloc countries and from the United States. The United States was the most important supplier, part of the Egyptian imports from the United States being in the form of surplus

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wheat. The USSR remains Egypt's most important customer with purchases totalling 19.5% of total Egyptian exports. During the last four months of 1960, the Eastern bloc countries absorbed 67% of Egyptian cotton exports as compared with 45% during the corresponding period of 1959. This recent development has created some concern, as the industrialisation drive requires more convertible currency to cover the import of capital goods from the West.

23. In the Syrian part of the new five-year economic development plan 1960-1965 of the UAR it is anticipated that foreign loans and aid will total \$215 million. The Soviet Union has already undertaken to provide credit and services to cover the main import requirements of the plan. At the end of December 1960, Czechoslovakia granted a credit of \$2.8 million at 3% interest, covering a period of five years, for projects under the Syrian Ministry for Municipal and Village Affairs.

24. Up to September 1960, only about \$25 million had been utilised out of the \$150 million credit provided under the Soviet-Syrian aid agreement of October 1957. The lack of progress in the implementation of this agreement has mainly been due to the Syrian inability to raise the local finances required as her contribution to match the Soviet credits for the projects envisaged.

25. A protocol signed in Moscow on 6th September, 1960, referring to the \$150 million credit agreement of 1957, revised the list of projects and earmarked \$71 million out of the original amount. The new list of specific projects includes: the construction of the Kemeshly - Latakia railway; the construction of a nitrogen fertilizer plant with an annual capacity of 110,000 tons of ammonium nitrate, to be completed in two stages, the first ending in 1964, the second in 1966; a lubricating oil plant with an annual capacity of about 25,000 tons, and the continuation of geological prospecting for oil and other minerals, including the use of equipment for drilling operations down to a depth of 5,000 metres. In all these projects consideration seems to have been given to the Syrians' difficulties in finding their share of the money to be invested, since the proportion of imported materials to local labour is higher in these projects than in projects envisaged earlier.

26. Negotiations with a Belgian-West German consortium for the railway project and with other free world sources for the fertilizer plant had been reported earlier and had already progressed a long way. However, in both cases these negotiations were overruled by high officials of the UAR. Reportedly, the reason

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for this attitude is Nasser's desire to counter-balance the political impact of the substantial United States Public Law 480 aid (\$75.2 million in wheat and flour) which was extended to the UAR (Egypt and Syria) during the second half of 1960.

27. The 770 km. railway from Kameshly to Latakia, which the USSR is to build by 1966, has been subject to some criticism and Syrian officials reportedly agreed that an equal capital sum invested in some other sectors of the economy might have yielded a higher return. But it seems that the USSR, for prestige reasons, had insisted on the inclusion of the railway project.

28. At the end of September 1960 a contract was signed between Czechoslovakia and a UAR (Syria) electric corporation for the building of a power station on Lake Hows (capacity: 30,000 kW.). This project had been included in the earlier USSR 1957 agreement, and Czechoslovakia appears to have acted as a sub-contractor.

29. Further progress has been reported on the implementation of a number of projects under way. The Rastan Dam, with Bulgarian assistance, is nearing completion, and Soviet experts are planning to turn the little town of Hows - where a Czechoslovakian-built refinery and an East German shoe factory have been erected and where the planned fertilizer plant and power station are to be located - into an important industrial centre. The geological prospecting, which started in 1957, is continuing and will be intensified. In connection with this project, the USSR is to supply three oil prospecting units to the UAR (Syria). Plans for Syria's most promising project, the proposed Euphrates Dam, are still not off the drawing board, but the first blue-prints are supposed to be completed in the course of the second quarter of 1961. The first stage of construction had originally been planned to start in 1962. The Syrian problem remains to find the balance of about \$250 million to pay for labour and local materials.

30. At present a large number of Soviet bloc technicians are working on various projects in the UAR (Syria), and if the implementation of the projects under the five-year economic development plan is to be carried out, more of them will have to be brought in the country. On 1st July, 1960, 475 industrial, agricultural and professional specialists were reported to be at work in Syria as against 735 at the same date in 1959.

31. Syria is still facing serious economic problems which have been aggravated by years of continued draught affecting mainly the wheat and barley crops. The wheat crop of 1960 has been estimated at 553,000 tons as against 1,353,000 tons in 1957, while the 1960 barley crop has been estimated at 157,000 tons as against 720,000 tons in 1957. Only the 110,000 ton

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cotton crop in 1960 can be considered as a success. In 1957 about 30% of total UAR (Syria) exports consisted of wheat and barley.

32. At the Seventh Damascus International Fair (15th August - 10th September, 1960), where 25 countries were represented, the participation of Hungary, Bulgaria, Czechoslovakia, China, the Soviet Union and East Germany was remarkably well organized and widely publicised.

YEMEN

33. China and the USSR are intensifying their efforts to gain greater influence in the economic development of the Yemen. Some Western countries are said to have encountered difficulties in their economic activities in that country. Reportedly, the Yemen authorities have generally been impressed and pleased with the results of the bloc assistance.

34. No new development credit agreements have so far been reported for the second half of 1960, but further progress on the bloc projects - most of them nearing completion - is to be noted. At the end of July 1960 Chinese equipment for a spinning mill, which is the first to be established in the Yemen and is to be located at San'a to produce cotton yarn from imported cotton, arrived at Al Hudaydah. The project is part of the Chinese-Yemeni technical assistance agreement of January 1958, providing for a \$17 million credit, two-thirds of which have been allocated to road construction, as reported earlier. The list of industrial projects offered by China includes a glass factory, a tannery, and cigarette, soap and match factories. On the agricultural side, the Chinese have offered to develop a cotton growing project. In the beginning of August 1960, a Yemeni economic delegation left for Moscow and Peking to discuss further economic assistance. At the request of the Imam, the USSR agreed to provide a cash loan to the Yemen, and negotiations were reported on the Soviet offer to build the Al Hudaydah - Ta'iss road. China offered to mint \$10 million worth of silver coinage for the Yemen. This unusual offer was probably prompted by the fact that China had not been able to obtain sufficient Yemeni currency to pay the salaries and other local costs connected with its aid projects. No information has so far been available on the further results of this mission, but as the Soviet project for the Hudaydah port as well as the Chinese road from Hudaydah to San'a are nearing completion, further assistance to Yemen has probably been discussed, and it seems likely that additional aid from the bloc will be accepted.

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YEMEN (Contd.)

35. By the end of June 1960, there were still 1,130 Soviet bloc personnel in the country; however, this figure includes about 700 Chinese labourers working on the road project. The Chinese technicians who will construct the textile mill are also in the country and they expect the project to be completed in six months, by which time Yemeni textile technicians now being trained in Peking will have returned to their country.

36. During the last few years the USSR has been purchasing Yemeni coffee at the rate of about 600 tons per year (about half of Yemeni coffee exports) on a barter basis for sugar, soap, matches, cement and consumer goods. The coffee purchases have recently (December 1960) been restricted; the aim of this Soviet move may be to obtain a reduction in the coffee price.

CONGO

37. The fast-moving flow of political events that has swept the Congo since it obtained its independence from Belgium, the permanent political crisis and the resulting instability do not allow for a balanced evaluation of the economic problems facing the new country. The Sino-Soviet bloc moves have, as a consequence, been mainly related to the political situation, taking advantage of such opportunities as appeared to be practicable for penetration.

38. At the end of July 1960, the USSR announced publicly its general willingness to render economic and technical assistance to the Congo and to establish at an early date trade ties with that country. In the middle of August, the Soviets announced the sending of relief supplies of food, trucks, and a number of technicians including doctors and medical workers. An Iljushin transport aircraft was presented as a gift to the then Prime Minister Lumumba. By the middle of September, reports indicated that 17 Soviet aircraft with bloc flight and ground personnel and one hundred 3-ton trucks, mainly for military use, had been put at the disposal of the Government. About 250 to 300 bloc technicians, some of whom were actually military advisers, a Soviet medical team, a Soviet cultural delegation and a Czechoslovakian economic mission in addition to East German and Czechoslovakian medical personnel were at work in the Congo.

39. At the end of September, the complete transformation of the political scene resulted in the rapid withdrawal of the bloc from the Congo. It is believed that the trucks with their spare parts and mobile repair shops, a certain amount of Czechoslovakian small arms, the medical supplies and equipment of the medical teams as well as an undefined number of bloc military technicians have been left behind. Although by the

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end of the year it appeared that the first wave of bloc penetration in the Congo had failed, it is still too early to draw any definite conclusions on the development of the Soviet economic penetration in this country.

ETHIOPIA

40. Very little progress has so far been made in the implementation of the Soviet Economic Assistance agreement signed in July 1959 and covering a credit of \$100 million. The Soviet negotiators have been complaining about the "administrative and technical ineptitude of the Ethiopian Government".

41. In an attempt to press Ethiopia into a more rapid implementation of the projects listed in the protocol signed in March 1960 and earmarking about \$42 million of the available credit, the USSR went so far as to transfer, on 18th June, 1960, \$2 million to Ethiopia's account with a New York bank, apparently without much practical result. About the middle of August 1960 some Soviet geologists were reported to be conducting iron ore and copper explorations in Eritrea.

42. The USSR have reportedly proposed a four-year programme of intensive exploration of the southern part of the country, including aerial mapping, aerial magnetic surveying and geodetic work. Under this scheme a total of 300 Soviet technicians would go to Ethiopia. The Ethiopian Government appears to be rather reluctant to accept such large numbers of Soviet technicians, all the more since an agreement had been reached with the United States on the aerial survey project before the Soviet programme was proposed. Along the same lines the USSR has offered to supply the Ethiopian airlines with TU-104 jet transport aircraft under the terms of the \$100 million credit agreement. But here again it appears that the Ethiopians would prefer Boeing 720 B jets for which they have been negotiating for some time.

GHANA

43. Ghana has a high priority as a target for Sino-Soviet economic penetration. On 28th August, 1960, the news agency TASS announced the signature of a technical assistance pact providing for a long-term credit of \$40 million at 2.5% interest. This loan follows an East German credit of \$3.1 million extended in April 1960 for industrial development including a cigarette factory, a coffee processing plant, fruit, vegetable and fish canning factories.

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44. The new Soviet credit was presented as an umbrella agreement, specific projects having to be negotiated separately. There is some reason to believe that the agreement was signed earlier but that Ghana had been rather reluctant to have the pact publicised at a time when negotiations with Western groups on the Volta river project were still going on.

45. It was, however, reported in November 1960 that a Soviet economic and technical mission had visited the proposed site for a dam at Bui, while another group had inspected the bauxite deposits in central Ghana (to be exploited if Ghana decides to develop her own aluminium industry). A third party had studied forestry methods and the possibilities of agricultural development in northern Ghana.

46. Once agreement on principle for a \$84 million loan from the IBRD, the United States and the United Kingdom had been reached, a protocol was signed and announced in late December for the implementation of the USSR \$40 million credit extended in August 1960. It thus appears that the USSR has agreed to co-operate in the building of a dam on the Black Volta river at Bui, to organize housing schemes at Accra and at the new port of Tema, to build a 200 room hotel at Accra, and to set up a number of model state farms. The assistance will be given in the form of services, design, equipment, training and supervision of construction. Assistance will also be rendered in the field of mineral prospection and surveying of water resources. The project attracting most attention is the Bui river dam with its hydro-electric power plant of a proposed output capacity of 200,000 kW. Estimates of the cost of building the dam vary between \$51 to \$70 million. The Bui dam is part of a much larger Volta river power complex providing for an integrated river control scheme for which negotiations were still going on at the end of 1960 between Ghana, private United States banking interest, the consortium headed by Kaiser Aluminium Company and the IBRD. The final cost of the scheme is estimated at between \$170 and \$195 million.

47. As a consequence of these new developments, the number of bloc technicians in Ghana is bound to increase considerably. Training of Ghanaian students in the bloc countries will also be intensified. Dr. Nkruma has been quoted saying that Ghana will send 3,000 students to the USSR and other bloc countries early in 1961, most of them to study scientific subjects.

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48. The Soviet bloc has shown increased interest in the field of air communications. The Ghana Airways, which are providing the internal African services to Dakar and intend to serve new routes to Cairo and Leopoldville, have been making use in the past of turbo prop Iljushins. In mid-August 1960 the purchase of four more turbo props from the USSR was reported for a total cost of \$6.72 million to be paid over a period of eight years. About 80 Soviet technicians are expected to form the Accra ground crew. In order to meet the regulations of the International Civil Aviation Organization, Polish and Czechoslovakian flight crews may have to be used. Delivery of the aircraft was originally scheduled for November, but ultimate confirmation of the purchase of these aircraft by Ghana had not been reported by that time and was apparently depending on the issue of certificates of airworthiness. On 4th November, a first group of 60 Ghanaians left for the USSR to be trained over a period of 3½ to 5½ years as pilots, navigators, flight and maintenance engineers.

49. During the first half of 1960, Ghana's exports to the USSR increased considerably, mainly because of the purchase by the USSR of 30,000 tons of cocoa beans. In August, in addition to the technical assistance pact, the signature of a trade agreement was announced. Ghana will export cocoa beans, coffee, copra, rubber, fruit, and other commodities, while imports from Russia will consist of machinery, steel, and semi-finished non-ferrous products, construction materials and petroleum products. The trade agreement provides for most-favoured-nation treatment and clearing arrangements.

GUINEA

50. In the course of the last six months of 1960, the total amount of credits and grants extended to Guinea by the Sino-Soviet bloc has been more than doubled (from \$42 million to \$107 million) by a series of new economic aid agreements. At the same time the arrival of large numbers of bloc technicians in the country, the recent delivery of large quantities of arms, and the signature of a number of additional trade agreements have considerably increased Guinea's already close ties with the bloc. These new links between Guinea and the bloc are the result of Mr. Sekou Touré's negotiations with the Soviet Union and Communist China during his visit there in September 1960.

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GUINEA (Contd.)ECONOMIC DEVELOPMENT CREDITS

51. In addition to the earlier line of credit of \$35 million extended in August 1959, a new credit of \$21.5 million was granted by the USSR in September 1960. So far the list of development projects to be financed by the new USSR credit has not been specified. A Moscow communiqué issued shortly after the departure of Sekou Touré on 9th September, 1960, announced that the USSR would participate in the construction of a group of projects on the Konkouré river. These projects involve the building of a large dam and, amongst others, an aluminium plant to utilise Guinea's bauxite deposits. The Konkouré river project has been estimated to cost in total some \$240 million and seems to be one of the most important projects included in the recent Guinean three-year economic development plan (July 1960 - June 1963). In addition, the new Soviet credit may also be used for financing the establishment of large rice farms and the delivery of building material and agricultural equipment.

52. The new interest-free loan of 100 million roubles (\$25 million) extended in September 1960 by China represented, at the time, the largest single economic aid effort ever made by Communist China in favour of a free world country. This is the first Chinese line of credit expressed in roubles. The credit is to be utilised during the three-year economic development plan ending 1963. The projects under this credit are to be agreed upon later. The credit agreement states that the projects to be covered will be "primarily in the form of technical assistance and delivery of complete sets of equipment and machinery". No further description of the use of this credit has been given. This credit will finance the salaries of the Chinese technicians, while Guinea will pay directly their living expenses. The agreement contains a clause which tends to become traditional in technical assistance agreements signed by China and which provides that "the standard of living of the (Chinese) technicians shall not exceed that of personnel of the same rank in the Republic of Guinea". Finally, the agreement also provides for the training of a number of Guinean technicians in China.

53. Czechoslovakia, Poland, East Germany and Hungary have all been active in Guinea. There are good reasons to believe that the line of credit extended by Czechoslovakia in July 1959 for the purchase of capital equipment has been increased from the original \$5 million to a total amount of \$10 million. Funds so far obligated under the Czechoslovakian credit will be used to start a civil air service and to establish a radio station.

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Hungary, Poland and East Germany have also extended additional credits. No information is available on the projects to be covered by these credits, but they will probably include technical assistance programmes.

54. The implementation of the first series of projects covered by the USSR \$35 million credit of August 1959 is well on its way: the technological institute at Conakry is under construction; the site for the National Assembly building at Conakry is being prepared, and actual construction is to begin soon; the reconstruction of the Conakry airfield is to start shortly, some machinery has already been delivered; the geological survey projects are well under way; and the reconstruction of the Conakry-Mamou railway line is under study. A number of projects under survey include: a saw mill and timber plant, a leather tanning and shoe factory at Kindia, a canning factory at Mamou, petroleum installations at Conakry, a refrigeration plant, and a cement plant at Mamou. Some equipment is reported to have been supplied for the agricultural development projects, while the organization of several dairy farms and a 17,000 acre rice farm is at present under study. The equipment for the sports stadium at Conakry, which is still under survey, has been received and two hotels to be built at Conakry have now reached the planning stage.

55. It will be remembered that, in addition to the two Chinese rice grants(1) valued at \$1.5 million, Guinea has received the following gift supplies: in March 1959 arms from Czechoslovakia; in April 1959 highway equipment estimated at \$0.6 million, from Czechoslovakia and Poland jointly; in December 1959 a 150 kW radio station, from Czechoslovakia and East Germany jointly, and during the first half of 1960 printing equipment from East Germany.

56. The increased economic activity of the bloc in Guinea is also reflected by the number of bloc specialists in the country. Guinea is at present host to about 400 bloc specialists. This figure has to be compared with an estimated number of 165 bloc technicians in Guinea during the first half of 1960 and 30 technicians during the last six months of 1959.

TECHNICAL ASSISTANCE

57. Out of a total of no less than 167 Chinese specialists at least 10 are reportedly agronomists. Hungary has 11 technicians at work in Guinea. A few Poles are also present. East Germany provides at least 66 specialists including: technicians for the operation and installation of the granted printing equipment, 37 teachers, 6 agronomists and 3 public work technicians. The USSR is mainly concentrating on transport technicians including 40 railway specialists, and a number of advisers and

(1) See C-M(60)116

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administrators for the port of Conakry. The total of USSR personnel in Guinea as at 11th November, 1960, has been estimated at 85 as a minimum. Czechoslovakia has sent high-level advisers to various ministries including the Ministry of National Economy and Planning, the Ministry of Finance, the Directorate of Customs, the Department of Water and Forests. The Czechoslovakian mission of at least 60 members includes about 20 medical personnel, 10 teachers, five instructors at the Police and Gendarmerie School at Kankan, a director and several technicians at the airport of Conakry, a couple of geologists, a radio engineering and a news director for Radio Conakry. In each economic and administrative area of Guinea, bloc technicians have been attached to the local authorities and are actively participating in the implementation of the three-year economic development plan and in the preparation of future economic development plans. At the end of 1960 French technicians in technical public services, such as the electricity supply, started to be replaced by Czechoslovakian and Soviet engineers.

MILITARY AID

58. In 1959 Guinea received some small arms and military equipment from Czechoslovakia, but this gift represents little in comparison with recent developments. During the last quarter of 1960 Guinea received two sizeable shipments of Soviet arms. The first arrived in late September 1960 and the second was unloaded in the middle of November. These deliveries of small arms, light artillery, ammunition, military trucks and a helicopter represented the first known major shipments of arms from the USSR and revealed the existence of a Soviet-Guinean arms deal. The delivered tonnage of about 3,700 tons seems large in view of Guinea's probable military requirements and some observers think that the final destination of part of these arms may be outside the country.

TRADE

59. After the departure from the franc zone on 1st March, 1960, Guinea had to rely even more heavily on barter trade than in the past. Since then Guinean foreign trade has been steadily redirected towards bloc countries. More than 50% of the country's foreign trade is now with the bloc.

60. In the beginning of August 1960 the Czechoslovakian Airlines (CSA) started a regular weekly service from Prague via Zürich and Dakar to Conakry. In the same month the purchase was recorded of Soviet petroleum products. Western oil companies were informed that they would not be allowed to import their own products unless prices were competitive with the bloc products, not only in amount but also in method of payment. In the middle of September the first Soviet tankers arrived at Conakry, together with the first shipment of 2,500 tons of gasoline and 1,400 tons of kerosene.

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61. The signature of a trade agreement with the Soviet Union for the period 1961-1965 was announced at the same time as that of the aid agreement. It superseded the one-year renewable trade agreement that had been in operation between the two countries since February 1959. Trade between the signatories, insignificant in 1958, grew to over \$1.5 million in 1959 and is expected to be much higher in 1960.

62. During his visit to Peking, President Sekou Touré signed a trade and payments agreement with China for a five-year period starting in 1961. The target fixed in this agreement provides for an annual exchange of about \$5 million each way. This represents nearly 10% of total foreign trade of Guinea. Up till now trade between the two countries had been negligible. The commodities to be exported by Guinea include coffee, industrial diamonds, copra, peanuts, palm seed and oil, cashew nuts, sesame seeds and rubber. China is to send among other items rice, textiles, building materials, agricultural machinery, chemicals, tea, foodstuffs and medicines. Balances in payment are to be settled within six months at the end of each year, in goods or in the currency of a third country.

63. In addition Guinea now has trade agreements with East Germany, Poland, Czechoslovakia and Hungary.

64. At the national conference of the Democratic Party of Guinea, the Minister of Economic Affairs, in order to justify the new policy, claimed that the Soviet bloc was paying prices between 10-20% higher than the world market prices for Guinea's agricultural products, and various reports have quoted cases where bananas were bought by bloc countries at 30% above world market prices. The real results of the new barter agreements can, however, only be evaluated when the prices paid for the Soviet goods are known.

65. The bloc's share of Guinean trade, negligible in 1958, rose in 1959 to \$5.1 million or 8.3% of Guinea's imports and to \$4.8 million or 16.7% of her exports. The increase during 1960 will be even more impressive. Guinea's main crops have been mortgaged for years ahead to repay bloc credits.

66. On 30th December, President Sekou Touré opened an exhibition in Conakry showing China's economic achievements.

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MALI

67. Since the splitting up of the Federation of Mali (consisting of Sudan and Senegal) on 24th September, 1960, various bloc countries have sent economic delegations to the new Republic of Mali to exploit quickly the opportunities offered to increase their economic relations with the new African state. At the end of September 1960, a Czechoslovakian economic delegation arrived in the Mali Republic and was presented with a long list of requirements. These projects were still under study in Prague at the end of the year.

68. In October 1960 an acute shortage of paraffin used for cooking and lighting was reported. Small quantities of Soviet oil had been imported by river from Guinea, and Western companies with storage facilities in Bamaku had been asked to store and sell them. Previously the oil supplies came by rail from Dakar, but since the separation from Senegal they have to be imported through the Ivory Coast and Upper Volta, which represents a difficult and expensive route. Transport difficulties are aggravated by the shortage of tanker lorries. Hence the Mali authorities have been trying to increase Soviet oil imports through Guinea. But here again they have been meeting transport difficulties and have, therefore, suggested to the Czechoslovakian economic delegation to study the feasibility of installing an oil pipeline through Guinea.

69. The Czechoslovakian mission was followed by a Soviet economic delegation which arrived in the middle of October. Unconfirmed reports on the negotiations with the Mali authorities say that the USSR might offer a \$28 million credit to the new state. In December a Bulgarian economic delegation visited Mali. The outcome of their discussions was still pending at the end of the year.

70. The only apparent results of those visits have so far been the trade and payments agreement and the scientific, technical and cultural co-operation pact signed with Czechoslovakia on 15th November, 1960. It would seem that the Czechoslovaks have promised to construct an international airport in Bamaku, an oil refinery, and to supply about 350 trucks.

MOROCCO

71. By the end of 1960, the continued efforts undertaken by the Sino-Soviet bloc to gain economic influence in Morocco seemed to have borne fruit. On 14th November, 1960, it was announced by the Moroccan Government that an offer of Soviet military aid had been accepted and that an offer of "unconditional" economic aid by the USSR had been taken into consideration. No further details were available at the end of the year(1).

(1) It has since been reported that 14 MIG jet fighter planes were delivered to Morocco by the Soviet Union in the first week of February 1961.

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72. The trade agreement signed between Morocco and China in September 1958 was renewed before the end of 1960, providing for a 25% increase each way over the 1958 trade target of \$11 million. Up till the end of 1959, Morocco, and the UAR, had been the only African countries to do any appreciable amount of trade with China. In 1959 the volume of trade amounted to \$15 million (mainly green tea from China and phosphates from Morocco). The revised targets may well appear over-optimistic when considering the total of foreign trade between China and Morocco reached in 1960.

73. On 30th December, 1960, it was reported that a trade agreement had been signed between the USSR and Morocco for 1961. Soviet supplies will include oil products, vehicles, timber, machinery and industrial equipment. Morocco will mainly supply agricultural produce.

TUNISIA

74. On 16th November, 1960, the local press reported that the Government of Tunisia had, for the first time, accepted economic aid from the bloc. An agreement was said to have been reached on the extension of a line of credit for the purchase of capital goods worth \$10 million. Repayment is to be made in Tunisian goods, 10% on the placing of the order, 10% on delivery and the remainder over an eight-year period.

75. Before the end of 1960 Tunisia renewed her trade agreement with China, providing for an increase of about \$20 million over the previous very low level of trade between the two countries, (in 1959 the total turnover with China was about \$2 million).

OTHER AFRICAN COUNTRIES

76. The bloc has continued to be active in a number of other African countries which have recently achieved independence.

77. Around the middle of the year, bloc trade overtures were made to TOGO, so far without much success.

78. The USSR has reportedly offered financial and technical aid to the former FRENCH CONGO.

79. Towards the end of December 1960, a Soviet trade mission arrived in DAHOMEY.

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OTHER AFRICAN COUNTRIES (Contd.)

80. A Czechoslovakian trade mission visited the CENTRAL AFRICAN REPUBLIC during the same period. Czechoslovakia has offered to increase trade relations, to supply long-term economic development loans and to send technicians to assist the Central African Republic.

81. Towards the end of the year, 26 students from SOMALIA were reported to have left for Peking to take up scholarships which the Chinese had offered to one of the opposition parties, apparently against the wish of the Somali Government.

AFGHANISTAN

AID

82. In late June 1960 the USSR sent a team of 24 experts to Kabul to assist the Afghan Ministry of Plans and Projects in the overall formulation of the second five-year plan (1961-1965) and to study the feasibility of a number of projects to be sponsored by the USSR. The combination of these two tasks to be performed by the same mission suggests the further interlocking of the economic development of both these countries.

83. This view seems to be confirmed by reports according to which the USSR has offered to provide credits for the financing of at least a very large portion, if not the entire, of the \$500 million foreign currency requirements for the Afghan second plan. Some reports have even mentioned a USSR offer of \$750 million, amount which would not only provide the total foreign currency requirements but also an additional \$250 million for local currency requirements. Should this offer be accepted by Afghanistan it would mean the complete dependency on Soviet credit for the implementation of each and every project included in the second five-year plan.

84. In the meantime further progress has been reported on the implementation of a number of projects financed under earlier USSR credits and grants. In early August 1960, six Soviet experts began surveys for a 3,000-unit housing project in Kabul, to be occupied by government officials of lower and middle income groups. A Soviet survey team of 12 engineers started investigation of the possibility of constructing a deviation dam in the Chakhansur basin of the lower Helmand river. This project, originally studied by the United Nations, was abandoned later because of the failure of Afghanistan and Iran to settle their differences over the division of the river's waters. On the list of other proposed Soviet aid projects have been mentioned: a refinery, several cement plants, a fertilizer factory, the extension of the Jangala machine shop, servicing Soviet cars, a steel mill with an annual capacity of 100,000 tons as well as assistance in the field of education and public administration. Up till now assistance in the field of education and public administration had been given only by the free world.

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85. The USSR continues to be Afghanistan's most important trade partner, accounting in 1959 for about 30% of Afghanistan's total trade. (25% of total exports and 40% of total imports.) Following the pattern of economic penetration started in 1953, Soviet bloc influence has again grown during the period under review and will probably continue to extend in 1961. There has been no change in the pattern of the Soviet bloc economic penetration started in 1953, but Afghanistan's dependence on the bloc has continued to grow during the period under review.

86. At the end of September 1960, a treaty of friendship and mutual non-aggression with China was signed during the visit to Kabul of the Chinese Foreign Minister. At the same time, the existing trade and payments agreement were extended. However, trade between the two countries is insignificant, and there seems to be little scope for increasing it on either side.

BURMA

87. The relations between Burma and China improved considerably during the second half of 1960. After the signature of the Sino-Burman boundary treaty in October 1960, Burma appeared to be much more receptive to Chinese economic aid and trade offers(1).

AID

88. The technological institute included in the USSR gift of April 1956 was almost completed by the end of December 1960, but Burma has delayed the signing of contracts for the purchase of Soviet scientific equipment so that the USSR may not be able to hand over the building before February or March 1961. The Burmese Government is planning to move the engineering college of the Rangoon University into the new building and thus to minimise the dependence of the institute on Soviet teachers and technicians. Only two Soviet teachers may be required.

TRADE

89. On 24th October, 1960, a Chinese trade delegation in Rangoon signed a trade agreement under which China will purchase between 300,000 to 400,000 tons of Burmese rice during 1961, representing between 15 and 20% of the total exportable rice surplus. Although the communiqué of 24th October did not specify the means of payment, it is supposed that payment will be required in pounds sterling. This agreement is all the more

(1) On 9th January, 1961, an interest-free \$84 million loan was extended by China. If this information is confirmed, this loan will represent the largest credit ever extended by China to a free world country.

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BURMA (Contd.)

significant as Burma had terminated its trade and payments agreement with Communist China in 1957 and gradually eliminated all trade arrangements with other bloc countries. Burma continued to maintain her level of imports from China, while her exports to China declined considerably, as other markets for Burmese rice and cotton exports were found. In 1959, total imports from China amounted to \$16.4 million of which nearly 50% consisted of textiles, while the 1959 exports to China amounted to \$0.4 million only. It is estimated that if the lower target of rice exports included in the new agreement is reached, Burma's rice exports to China in 1961 will amount to about \$28 million worth. It seems that China will have an opportunity to increase their exports to Burma, where there is a strong demand for Chinese goods.

90. Since India had always been a most important customer of Burmese rice, the announcement of the United States-Indian wheat and rice agreement in May 1960 reportedly caused some resentment in Burma.

CAMBODIA

91. On 26th December, 1960, Prince Sihanouk announced the conclusion of economic aid agreements with the USSR, Czechoslovakia and Communist China. The total value of the aid to be provided was not reported, but the agreements are to cover a wide variety of projects including: (1) a technological institute, a geographical survey of the country and the preliminary studies for the construction of two dams and hydro-electric power plants to be built by the USSR; (2) a sugar refinery, a tyre factory, and a tractor assembly plant, to be furnished by Czechoslovakia; and the establishment of a Cambodian-Czechoslovakian shipping company. The credits extended for most of the projects under the Soviet and Czechoslovakian agreements will be repaid in Cambodian agricultural products.

92. The agreement with China provides for: \$11 million for the completion of four factories which the Chinese are constructing and for the expansion of two of these enterprises; \$26 million for the construction of a steel mill and a factory for agricultural equipment; \$1 million for technical assistance in connection with the survey and construction work on the Phnom Pen - Sihanoukville railway line. The Chinese agreed to provide technical assistance for the reorganization of producers' co-operatives, the improvement of rice cultivation, and the introduction of several new types of cultures. A Sino-Cambodian shipping company is to be established and will train Cambodians in the operation and maintenance of commercial vessels. Up till then Cambodia had received in total about \$35 million in the form of grants, but no credit had been extended by the bloc countries.

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CAMBODIA (Contd.)

93. In October 1960, 89 trainees who had studied plywood, textile and paper manufacturing in China returned to Cambodia where they will gradually replace Chinese experts at the completed plywood and textile plants and at the paper factory, where operation is expected to start in early 1961. About 20 Chinese technicians have already returned to China. In November and December 1960, 87 Cambodian technicians left for China in order to study the manufacture of cement and electrical appliances. Some dissatisfaction with the prevailing living conditions and limited technical training facilities in China has been reported by some of the returned trainees.

CEYLONAID

94. After a prolonged pause suggesting that a number of difficulties had been encountered in the utilisation of the \$30 million credit extended by the USSR in February 1958, Sino-Soviet bloc activities seem to have flared up again following the formation of the Government by Mrs. Banderanaika, in July 1960.

95. Only six projects out of the list of 16 had been contracted for by October 1960. Nevertheless the Sino-Soviet bloc has continued its overtures of economic assistance. The USSR has offered a nine-month training course for Ceylonese pilots and a number of aircraft sufficient to cover the country's needs for civil aviation. Communist China was reported to have offered rolling stock, presumably under its \$15.8 million grant which was extended in September 1957 but has not yet been drawn upon. In the beginning of December 1960, negotiations were taken up again on the construction of a textile factory to be financed under the \$10.5 million credit extended by China in September 1958. At the end of 1960, during the Polish Prime Minister's visit to Ceylon, it was reported that an offer had been made to the Ceylonese Government for the supply of a fleet of cargo vessels and trawlers to be paid in long-term instalments, and that furthermore Ceylon had been offered an economic development loan of \$16.8 million for 18 years at 2.5% interest.

96. The sugar mill at Kantalai in north eastern Ceylon, which was constructed by the Czechoslovakian corporation "Teknoexport" and equipped with Czechoslovakian and Polish machinery, was officially opened on 2nd October, 1960. This project is the first major bloc accomplishment in the country. Its total cost has been estimated at \$4.8 million out of which \$1.6 million were financed under the \$1.7 million credit

CEYLON (Contd.)

extended by Czechoslovakia in August 1957. The maximum output of the plant would be about 20,000 tons of sugar per year. In order to use the plant at full capacity, some 6,000 acres of sugar cane plantation would be required for the supply of the necessary raw material. The cost of clearing adjacent jungle for sugar plantations represents about \$0.6 million and is to be met by Soviet aid under the Soviet \$30 million credit of February 1958. By the middle of November 1960, 2,800 acres were reported to be under cultivation for sugar cane. The production cost of the sugar plant is said to be about \$110 per ton of sugar, which is at least 25% above the world market prices; however, the utilisation of by-products for the production of newsprint, writing paper, fibre board, acetic acid, edible yeast, power alcohol and rayon is supposed to make the running of the plant economically justifiable.

97. At the end of October 1960, Soviet experts submitted the plans for the iron and steel works near Colombo to be financed under the Soviet \$30 million credit of February 1958. According to press reports, the envisaged steel rolling mill would have an initial capacity of 35,000 tons of rolled products per year and would be enlarged to reach a maximum capacity of 50,000 tons per year. (During 1959 Ceylon imported about 60,000 tons of iron and steel products valued at \$8.8 million.) Until a blast furnace has been constructed imported blooms will have to be used as raw material. The estimated total cost of this project has been indicated at about \$31.5 million of which about \$20 million would be financed under the Soviet \$30 million credit of February 1958. At the same time 85 Ceylonese engineers would be offered to undergo a training in specialised techniques in the USSR, while semi-trained personnel would be trained on the job by USSR specialists. Ceylon has obtained the assistance of India to study and assess the Soviet plans.

98. The plans prepared by Soviet experts for the establishment of a tyre factory to be erected at Kelaniya near Colombo foresee a capacity sufficient to cover Ceylon's total requirements. (At present Ceylon is depending on the import of about 20,000 tyres annually to cover its needs.)

TRADE

99. The recent revival of Sino-Soviet economic activity has also been apparent in the field of trade. During the first weeks of July 1960 it was reported that the Ceylonese Government had under consideration an offer from the USSR to supply Ceylon's total requirements of petroleum products and fuel oils at prices at least 20% lower than those charged by the Western oil companies which at that time were covering Ceylon's

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total requirements (about 1 million tons per year). In the trade agreement signed with the USSR in February 1958, unspecified amounts of petroleum products to be supplied by the USSR had already been mentioned, but up till the middle of the year none had ever been imported. At the end of October 1960, it was announced that a Ceylonese private company, supported by the Government, had signed a contract to import 130,000 tons of oil annually from the USSR at prices 25% lower than those prevailing on the market. At that time it was not yet clear how far the Ceylonese Government had gone in considering the setting up of a state corporation to handle Soviet oil products. On October 1, 1960, for the first time since 1958, the USSR took part in the Colombo tea auctions, apparently in order to promote trade with Ceylon and to assist the sale of Soviet oil.

100. At the end of December 1960, the rubber-rice barter trade agreement with China was renewed. The targets fixed for 1961 have been put at 28,000 tons of Ceylonese rubber to be sent to China in exchange for 230,000 tons of rice to be received by Ceylon. During 1960 the rubber exports to China amounted to somewhere between 17,000 and 22,000 tons, while the rice imports are expected to reach between 160,000 and 205,000 tons. Part of the Chinese rice sold to Ceylon comes from Chinese purchases of Burmese rice. Direct negotiations between Ceylon and Burma for the purchase of Burmese rice reportedly failed at the end of the year. The Burmese prices asked were apparently considered too high by Ceylon, while Burma could offer no guarantee for importing Ceylonese goods.

INDIA

101. The efforts of Soviet penetration in India have to be seen in the light of the increased attention given to Indian needs by the free world countries. The "Aid to India" Club, set up in 1958 with a view to helping India overcome its foreign exchange difficulties, and originally comprising the United States, the United Kingdom, West Germany, Canada, and Japan under the auspices of the IBRD, has recently been enlarged to include Italy, the Netherlands, Sweden and Switzerland and has already proved its value in a better co-ordination of Western aid. Another favourable event of major importance was the conclusion of the Indus Water Treaty signed between India and Pakistan in Karachi on September 19, 1960. Almost \$900 million have been extended by various free world countries to finance the construction of irrigation systems and other works. At the same time the signature of the treaty marks the end of a critical and long-standing dispute between India and Pakistan and opens the way to the peaceful use and development of water resources on which depend the livelihood of some 50 million people in the two countries.

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102. India's requirements of foreign capital during her third five-year plan (1961-1966) will greatly increase and exports will not cover more than a small portion of the third plan's total import requirements. The total foreign assistance for the third plan has been estimated at \$6.72 billion, representing about one-third of the total planned investments of \$21 billion provided for under the third five-year plan. Up till 1st January, 1961, according to Indian sources, total foreign assistance already promised amounted to about \$5 billion of which about half was to come from the United States and another third from the rest of the free world. Bloc aid thus represents only one-fifth of the assistance to come from the free world.

AID

103. On 30th August, 1960, the Indian Government announced its acceptance of an additional Soviet credit amounting to \$125 million at the usual 2.5% interest. This sum, added to the \$375 million extended in 1959, brings the total amount of Soviet credit granted specially for utilisation under India's third five-year plan to \$500 million. Czechoslovakia and Poland had already extended nearly \$18 million in credits for projects under the third five-year plan (in November, 1959 and May, 1960, respectively). The Indian Government will also have at its disposal more than \$150 million that will be carried over from earlier bloc credits extended for use under the second five-year plan. With a total amount of more than \$930 million so far extended by the Sino-Soviet bloc since 1954, India has been permanently on the top of the list of free-world countries receiving bloc economic assistance, though on a per capita basis the figure is still very modest.

104. The capacity of the Bhilai steel mill, by far the largest single project that has been erected with bloc aid and has gone into production, is to be increased 2.5 times with Soviet aid under the 3rd five-year plan. Progress has been made on a number of other projects. The Indian Government has accepted the construction of a heavy machine plant at Ranchi (Bihar State) on the basis of plans prepared by Soviet experts. The Czechs have submitted plans for a foundry forge unit to supply forgings and castings required by the machine plant, but delivery of the machinery has not yet started. A number of other reports has been accepted by the Indian Government for a series of projects including a coal mining machinery plant and an ophthalmic glass plant to be located at Durgapur (West Bengal). Soviet manufacture of the elements for the large Neyveli power station in Madras State is reportedly proceeding satisfactorily, although disagreement on the training programme of the Indian engineers and delays in adapting the Soviet

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machinery to Indian requirements seem to have caused at least a one-year delay in the completion of the project. There seems to have been little progress so far in the utilisation of the \$16.8 million Soviet credit earmarked in November 1960 for the mechanisation and development of the Korba coal fields.

105. In August 1960, Prime Minister Nehru stated that the Government was considering the building of two more nuclear reactors under the third five-year plan, each with a capacity of 150 MW. According to a press report, the USSR had agreed on the construction in India of a 150 MW natural uranium power reactor, referring to one of the announced additional reactors. An atomic power station of 300 MW is already included in the third five-year plan, but so far no confirmation of the nature or scope of Soviet participation in the plans of the Indian Atomic Energy Commission have been revealed.

106. The Indian Government has also announced its tentative decision on the location of the six pharmaceutical plants to be built with the assistance of a separate \$20 million Soviet credit extended in June 1959. The plants are not expected to be completed before 1964.

TRADE

107. On 24th October, 1960, a joint statement on trade relations between the USSR and India was issued at Delhi, envisaging the doubling of trade between the two countries by 1963. In 1959 the volume of trade between the two countries was about \$103 million, representing 5% of India's total trade. It may be noted that, if the plans for the 2.5 times increase of the capacity of the Bhilai steel works are implemented, the import of the necessary capital equipment to be financed under the USSR credit for the third five-year plan would account for an important part of this increase.

108. On 3rd November, 1960, a three-year trade agreement was signed with Czechoslovakia, fixing trade for 1961 at \$29.4 million each way or 40% above the level fixed for 1960. It seems, however, that the 1960 trade target will not be reached, owing to the failure of Czechoslovakia to take all its import quota.

109. The volume of trade between India and East Germany is still small, only \$12 million in 1959, but following discussions in East Berlin in November, 1960 on trade in 1961, it was announced that East German exports of machine tools, precision instruments, optical equipment, chemicals and film material had increased during 1960, and a further increase of 35% was expected during 1961.

110. India did not seek an extension of her trade agreement with China when it expired at the end of 1959. China is the only bloc country with which India has not maintained trade relations.

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INDIA (Contd.)

At present India has trade agreements with Hungary, Bulgaria and Roumania.

111. During the period under review, petroleum seems to have been one of the items in trade negotiations between India and the USSR. On 15th July, 1960, a three-year contract was signed providing for the delivery of 1.5 million tons of Soviet petroleum products, mostly kerosene and diesel oil, valued at \$42 million, to be purchased by the state-owned Indian Oil Company and to be paid in rupees. The Indian Minister for Oil and Fuels stated that prices were well below world market prices. The Soviet offer also included a proposal for selling crude oil, but the Western oil refineries refused to handle the Soviet crude and offered as a counter-proposal to cut their prices by 7½%. These price concessions were considered as insufficient by the Indian Government and a new additional 5% reduction was offered. As a consequence, on 8th August, 1960, the Indian Government, in accepting the 12.5% price reduction offered by the Western refineries, broke off its negotiations with the USSR for the purchase of crude oil but maintained its contract for petroleum products. At the beginning of December 1960, when 22,000 tons of Soviet products had arrived, India requested the suspension of deliveries of Soviet oil products for the time being until arrangements were made for storage and distribution of those products by the state-owned Indian Oil Company. At the same time, however, India announced that 2.5 million tons of Soviet petroleum products would be purchased over the next four years, thus superseding India's earlier three-year agreement for 1.5 million tons. (Total Indian annual requirements amount to about 5 million tons of crudes). The participation of the USSR in the development of the new oil fields discovered by Soviet experts north of Bombay was also intensified. Between \$42 and \$69 million for oil exploration and development has been earmarked under the \$375 million USSR credit of 1959. It has also been reported that the USSR is to help in the construction of a third state-owned oil refinery to be built, probably in the Cambay area.

112. In November 1960 it was reported that India is to purchase \$32 million-worth of road building machinery, transport aircraft and helicopters from the USSR for the Indian Border Routes Development Board. According to official Indian sources, the agreement results partly from the urgent need for India to meet Chinese border threats by supplying her troops in the remote border areas with transport facilities and heavy road building machinery.

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NEPAL

121. Nepal, whose geographical position is of strategic importance, has received relatively large amounts of foreign assistance. This aid, combined with the inadequacy of Nepal's administrative machinery, has led to what has been called "acute foreign aid indigestion".

122. By the middle of 1960, \$140 million foreign aid had been committed, of which \$41 million was provided by the Sino-Soviet bloc (China: \$33.6 million; USSR: \$7.5 million) as against \$64.5 million extended by India alone, \$25 million by the United States, and \$2.8 million by the United Kingdom.

123. Nepal's second five-year plan, due to start in July 1961, calls for development expenditures estimated at between \$270 and \$420 million. But the annual domestic revenue of the Nepalese Government is not much more than \$8.5 million, and the Nepalese Finance Minister has announced that the 1961 development budget will depend on foreign aid to the extent of 88%.

124. Little has been heard about further progress on the implementation of the \$21 million gift granted by China in March 1960, though some 30 Chinese experts are supposed to be working in Nepal by now; they are working mainly on preparatory work for some irrigation and communications projects.

125. Under the \$75 million USSR grant of November 1959, about 25 Soviet specialists were reportedly working in Nepal during the second half of 1960; they dealt with the expansion and improvement of sugar cane and tobacco plantations, a hydroelectric power plant and transmission line. By the Middle of October, Soviet road experts had completed their aerial survey for the eastern sector of the proposed 500-mile east-west road. A similar survey in the western sector started thereafter, while ground surveys began in the eastern part. The question of who is to build the road has not yet been decided, but apparently the Soviets will be associated with the work. By the end of the year, USSR experts had prepared designs for a sugar mill in West Terai and a cigarette factory in East Terai.

PAKISTAN

126. Petroleum exploration was apparently the back door through which Soviet economic assistance was able to enter the Pakistan scene. The successes scored in Afghanistan and the impressive aid to India in this field, combined with the feeling that Western oil companies had not put forth their best efforts in attempting to find more oil in Pakistan, were probably the decisive factors in the acceptance by this SEATO country of the Soviet assistance programme for oil, gas and mineral exploration.

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PAKISTAN (Contd.)

127. In mid-August, 5 Soviet experts arrived in Pakistan to start negotiations and to determine the nature and extent of Soviet activities. The Pakistani Minister of Fuel, Power and Natural Resources stated that the Soviet exploration programme would be restricted in both West and East Pakistan to areas not yet covered by Western concessions. According to some press reports released at the end of September, it was expected that the USSR aid in oil prospecting might be accepted along the same lines as the aid to India in this field. The construction of an oil refinery to be built with Soviet assistance was mentioned by the Pakistani Minister of Fuel, and a few days later the Soviet Ambassador announced that the USSR would be prepared to extend a credit for the financing of these projects. Consequently, a Pakistani delegation left for Moscow at the end of December to conclude an agreement on oil exploration. By the end of the year American press reports mentioned a tentative figure of \$30 million of credit to be extended by the USSR to finance this undertaking. This will be the first bloc credit ever accepted by Pakistan. The only previous Soviet economic activity in the country had consisted of relief grants of wheat and rice in May 1956.

128. The reappraisal of Pakistan's attitude towards Soviet bloc aid and trade offers had already become apparent by the middle of the year. At the time, new barter agreements with Czechoslovakia, Poland and the USSR had reportedly been envisaged. While the previous level of trade between Pakistan and the bloc had been extremely low (less than \$2 million each way in 1959 out of a total trade of about \$672 million), Pakistan was reportedly looking for additional markets for some of its agricultural products. Negotiations were reported in July 1960 on an arrangement for importing Czechoslovakian machinery and equipment, worth between \$5 and \$10 million, in exchange for Pakistani exports of primary products. An increase in the economic relations between Pakistan and the bloc became apparent from then on.

129. Up to the end of 1959, more than \$1.5 billion of economic aid had been extended to Pakistan by the free world, out of which the USA alone provided \$1.1 billion. The co-ordination of Western aid to Pakistan entered a new stage with the establishment of the Indus Basin Development Fund of almost \$900 million for works in Pakistan consequential on the Indus Water Treaty signed in Karachi on 19th September, 1960, and with the constitution of an economic assistance group of countries rendering aid to Pakistan. This group was set up under the auspices of the IBRD. The USA, Germany, Canada, the United Kingdom, and Japan as members, and Italy and France as observers, held a common session in October 1960 at which "a preliminary exchange of views on the financial assistance to be extended to Pakistan for its second five-year economic development plan (July 1960-1965)" was conducted.

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THAILAND

130. On 3rd November, 1960, Thailand's Prime Minister stated that the USSR had offered economic aid and that Thailand was prepared to accept it. No further details were available at the end of the year. Thailand has a long-standing complaint that the United States has given comparatively greater assistance to neutral countries than to outspokenly anti-communist SEATO countries like Thailand.

ARGENTINA

131. The USSR has repeatedly offered to purchase large quantities of quebracho extract, wool, hides and linseed oil in exchange for other goods and has declared its readiness to give more long-term low-interest credits to Argentina in addition to the \$100 million loan extended in December 1959. The main obstacle to an increase in economic relations between the two countries has hitherto been the USSR's inability to supply adequate quantities of the kind of goods Argentina wants.

132. Argentina has now terminated her bilateral trade and payments agreements with Bulgaria, East Germany, Hungary, Czechoslovakia, Poland, and Rumania. This policy was adopted in accordance with the recommendations of the International Monetary Fund, which considered that these bilateral agreements had been an important contributory cause of inflation. Some reports indicated that Argentina intends to cancel the agreement with the USSR as well.

BOLIVIA

133. Several economic overtures have been made recently by the USSR to Bolivia. The first was an offer to provide Bolivia with a tin smelting factory, the second consisted of an offer of \$150 million credit for economic development projects for Bolivia's state-owned mining and petroleum corporations, and the third concerns long-term contracts for the purchase of Bolivian mineral products. None of these offers has so far been accepted.

134. Bolivia, who is the poorest of the Latin American countries, is drawing about 95% of its foreign export earnings from tin. At present, all Bolivian tin ore is sent to the United Kingdom for smelting, and freight and smelting charges absorb up to 60% of the proceeds of the sale. Agitation for the building of a smelting plant in Bolivia has been going on for some time and was revived by Khrushchev's announcement during the UN October session in New York that negotiations had been started for providing Bolivia with tin smelting facilities. But technical reasons make it extremely difficult to smelt Bolivian tin ore without mixing it with ore from elsewhere and this can be done more economically in the United Kingdom than in Bolivia.

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135. A Bolivian delegation of economic and technical experts, headed by the Minister of Mines, is to visit Moscow during the second half of January 1961 to discuss the tin smelting offer and the credit offer of \$150 million, as the Bolivian Government finds it apparently difficult to reject the officially announced Soviet aid offers. The possibilities of establishing closer trade relations will also be discussed.

BRAZIL

136. At the end of June 1960, five East German technicians arrived at Porto Alegre to consult with the State Government of Rio Grande do Sul on the installation of a new telephone system. Hungary is also reported to have submitted a proposal for the installation of a telephone system in the interior of that state.

137. Unconfirmed press reports state that an agreement has been reached under which a group of more than 20 Soviet engineers might give technical assistance in the production of gas for domestic use from bituminous shale. The planned volume of industrial output of gas will cover the needs of Sao Paulo and Rio de Janeiro and about half of the overall demands for this product in Brazil.

138. On 25th June, 1960, Brazil signed a five-year trade and payments agreement with Czechoslovakia, providing for a trade turnover target of 70 million in 1960. Brazil will export coffee, cocoa, minerals, leather and sisal against Czechoslovakian machinery. This agreement replaces the 1950 agreement, which was subsequently extended for short terms. In 1959 the total trade between the two countries amounted to \$42 million, a record figure for the trade relations between Czechoslovakia and Brazil.

139. In 1959 Brazil's total trade with the bloc represented some 4% of total Brazilian trade. This percentage might be increased to about 10% of total trade by late 1960 or beginning 1961, if the trade goals specified in recent trade agreements are fulfilled.

CHILE

140. No formal approach for the establishment of economic relations between the USSR and Chile has so far been made, and presumably diplomatic relations between the two countries would have to be resumed before a formal economic aid agreement could be concluded. However, on the occasion of the deliveries of relief supplies for the earthquake victims, the Soviet Ambassador in Argentina said that the USSR was willing

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CHILE (Contd.)

to give Chile economic aid in the form of foodstuffs and capital equipment. It has also been reported that the USSR offered to re-equip Chile's copper mines in return for copper and to grant favourable credit terms for the purchase of other equipment. At the end of December 1960, a Soviet parliamentary delegation visited Chile. The outcome of its discussions with the Chilean authorities is not yet known.

CUBA

141. As the deterioration of relations between Cuba and the United States aggravated, culminating in the break-off of diplomatic relations on 4th January, 1961, the increasing dependence of Cuba on the Sino-Soviet bloc became rapidly obvious. During the last six months of 1960, the announcements of new trade, economic and military aid, cultural, scientific and technical co-operation agreements and of implementation protocols followed each other in an ever-accelerating succession. By the end of the year, Cuba was well on the way of becoming a member of the communist bloc, if not yet politically, at least economically. The Secretariat of the Council for Mutual Economic Assistance of the Countries of Eastern Europe (COMECON) made this point clear when it recommended in early August that "in relation to credits and payment facilities its members should grant the same advantages to Cuba as to each other ...".

ECONOMIC DEVELOPMENT CREDITS

142. During the period under review new loans (totalling at least \$125 million) were extended to Cuba by the following bloc countries:

- Hungary, on 15th September, providing for a first loan of \$8 million;
- Czechoslovakia, on 28th October, providing for an addition loan of \$20 million;
- China, on 30th November, providing for a spectacular interest-free loan of \$60 million;
- Hungary, at the end of December, increasing its September loan from \$8 million to \$15 million;
- Rumania, at the end of December, providing for a development credit of \$15 million;

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- Bulgaria, at the end of December, extending a loan of \$5 million;
- East Germany, at the end of December, extending a loan of \$10 million;

In addition, there is reason to believe that Cuba also received economic development credits from Poland, although nothing has so far been published on this loan. While up to February 1960 no bloc credit had ever been granted to Cuba, in less than one year this country obtained a total of at least \$250 million credit for economic development from all the Sino-Soviet bloc countries of any economic importance.

143. All the bloc credits so far extended are too recent to have had as yet any direct bearing on the economic development in the country and are intended to be drawn upon during the next five years, starting from 1961. On 15th July, 1960, Nunez Jimenez, Executive Director of the Cuban National Institute of Agrarian Reform made a preliminary summing up of the progress so far achieved in obtaining bloc assistance. By that time at least 57 industrial enterprises were to be erected with bloc assistance. But the flow of the new development credits had just started at that date.

144. On 21st October, 1960, a Cuban mission headed by the President of the National Bank, Mr. Che Guevara, left for an extensive visit to the USSR, Czechoslovakia, East Germany, China, Mongolia, North Vietnam and North Korea to discuss various problems encountered in implementing the economic aid and trade agreements between those countries and Cuba, and to seek additional large-scale long-term loans. On his return on 23rd December, 1960, more information was given on the expected use of the bloc credits.

145. At the end of the year the general picture of bloc economic development aid showed as follows: The USSR, under its February 1960 \$100 million credit, is to undertake the construction of some 100 industrial enterprises including such major projects as: a 1 million ton capacity steel plant, an oil refinery and thermo-electric power stations. Equipment will also be delivered under this credit to extend the capacity of existing steel plants. Between 20 to 40 factories are expected to be installed during 1961. At the end of October a Radio Moscow broadcast revealed that a team of Soviet metallurgists, oil workers and production technologists had made extensive surveys of Cuba's natural resources. The team had also assisted with development plans for certain industries, including off-shore oil exploration and the conversion of peat

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into fuel for thermo-electric power stations. In addition, a number of bloc technicians had rendered services in various economic agencies of the Cuban Government. The Soviet Union will continue to give technical assistance to Cuba's iron and steel, oil and power industry. Further geological prospecting for iron ore, chromium, oil and other minerals, to be conducted by Soviet experts, is also foreseen. About 200 Soviet technicians are expected in Cuba during 1961, and it has been implied that they might be needed to help run the seized American installations. In addition, provision was being made for the training of an unspecified number of Cubans in the USSR.

146. Czechoslovakia, who extended two \$20 million loans to Cuba, the first in May 1960, the second five months later, will provide machinery, equipment and assistance in the development of the production of motor vehicles, agricultural machines and machine-tool industries. Czechoslovakia has also undertaken to give Cuba technical assistance, inter alia, in the development of her nickel resources.

147. East Germany will deliver 17 complete factories in the course of 1961, nearly all of them light industrial plants including textile mills, fishmeal and vegetable oil factories. Technical assistance for the establishment of these projects will be provided. These industrial plants will be paid by Cuban exports of sugar, sisal, tobacco, honey, coffee, chromium and nickel.

148. Poland will provide for a number of complete industrial plants including a shipyard, a battery factory, a nail factory, a slaughter house and at least a dozen small industrial plants. The economic aid agreement with Poland does not mention any extension of loans to finance these projects, but it is not excluded that credit will be (or has been) extended to cover the transactions.

149. Hungary will provide machinery, equipment and complete industrial installations under its \$8 million loan which was later increased to \$15 million and is repayable in 10 years at 2.5% interest. Technical assistance related to these projects will be provided.

150. Rumania will participate in the Cuban economic development scheme by providing credit up to \$15 million. Further details have not yet been published.

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151. During 1961 Bulgaria will provide about 14 industrial plants, presumably to be financed in part by the \$5 million credit recently extended.

152. The Chinese \$60 million interest-free loan, to be drawn upon between 1961 and 1965 and repayable over 15 years, is intended to be used under the vast Cuban industrialisation programme for the construction of at least 24 factories of various types. A technical co-operation agreement was signed on 23rd July, covering such fields as: industry, architecture, geology and mining, agriculture and communications. The exchange of data between experts and the exchange of experts and scholarships for technical studies have been arranged for. Cuba is to send 200 students to China during 1961 for training in various fields. The Chinese assistance in the field of industrial development is all the more striking since China has an even more urgent need of industrialisation than Cuba, which as a receiving country already enjoys a higher level of standard of living than the donor country.

MILITARY AID

153. An important aspect of the bloc's programme for Cuba lies in the field of military assistance. The delivery of Czechoslovakian and Soviet arms started on 7th September, 1960. By the beginning of November a tonnage of about 10,000 tons of military equipment had already been received. Four more Soviet ships carrying arms arrived in Havana in late December 1960, bringing the delivered total to about 30,000 tons of arms and ammunition valued in the range of \$40 million to \$50 million. Little is known about the terms of payment for the bloc arms.

154. In the middle of August it was reported that a bloc military training programme had been started. A first batch of about 65 air and artillery cadets had left for Prague. Information on the further exchange of personnel with bloc countries may become more scarce, as a direct air service between Prague and Havana has been scheduled to be put into operation soon.

TRADE

155. Even more spectacular than the bloc economic aid drive during the second half of 1960 was the complete reorientation of Cuba's direction of foreign trade towards the bloc countries. Up till the end of 1959, Cuban trade with the bloc had been almost negligible. The Soviet bloc

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accounted for \$42 million (or 5%) of total Cuban exports during 1957, the peak year, and only for \$2.4 million (or 0.2%) of total Cuban imports during the same year. Cuba is the world's largest sugar exporter and depends on sugar for more than 3/4 of its total export earnings. Sugar production for 1960 has been estimated at 5.7 million tons by the Cuban authorities and at 5.2 million tons by United States experts.

156. On 13th February, 1960, the USSR and Cuba signed the first trade agreement representing a radical departure from Cuba's earlier trade policy. The first step called for a Soviet purchase of 1 million Spanish long tons(1) of sugar annually over a period of five years at prices believed to be below world market prices (80% payable in goods, including oil, and 20% in dollars).

157. In April an agreement was reached under which Cuba would buy 300,000 tons of crude oil from the USSR and another 300,000 tons of petroleum products at prices substantially lower than world market prices. Imports of Soviet petroleum had started in late April. In May, Cuba announced the purchase at \$2.75 a barrel of 900,000 tons of Soviet crude oil, representing about one-third of Cuba's annual needs. After the signature of this contract, the three main foreign-owned refineries were each requested to handle 300,000 tons of Soviet crude oil at agreed prices. On their refusal to do so the Cuban Government in late June took over the two United States and the one British-Dutch refineries. Soon after Soviet oil technicians arrived in Cuba to replace key personnel of the Western companies, who left the country.

158. Following the United States decision to cut the Cuban sugar quota, Khrushchev stated that the Soviet Union would buy an additional 700,000 tons of Cuban sugar during 1960 if Cuba had difficulties in disposing of its sugar. At the beginning of July Cuba concluded trade agreements with Poland, Czechoslovakia and East Germany.

159. On 23rd July, a five-year trade and payments agreement was signed with China providing for the sale of 500,000 Spanish long tons of sugar annually during the five years following the ratification of the agreement. The price quoted for this transaction was 3.25 cents per pound, which was about the world price of sugar. Payment for the first 100,000 tons during

(1) The Spanish long ton, which is the conventional unit of measurement used in the international sugar market, is equal to 2,271.6 United States pounds or to 1.03 metric tons.

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1960 would be in sterling equivalent to about \$7 million and thereafter in Chinese goods at the rate of about \$35 million annually. During recent years Cuba's rice imports had currently amounted to about \$38 million a year. Cuba also reportedly agreed to export other agricultural and mineral products such as nickel, while China is expected to supply rice and other foodstuffs, machinery and consumer goods.

160. In order to facilitate the implementation of the bilateral agreements, Cuba had established a State Trading Bank which, in the middle of July, was given the legal monopoly for the import trade of a wide variety of goods including foodstuffs, china, cotton, textiles, iron and steel wire, fertilizers, insecticides, tractors, bulldozers and agricultural machinery. A Polish bank expert was brought in to give technical advice.

161. Trade agreements with the other bloc countries followed in quick succession. On 15th September, a 5-year trade and payments agreement was signed with Hungary along the lines already negotiated with Czechoslovakia, Poland, USSR and China. The agreement calls for the exchange of Cuban agricultural produce, minerals and textiles for Hungarian industrial equipment, buses and trucks, agricultural machinery, mining machinery, telephone exchange installations, road vehicles, a hydroelectric plant, and various other capital goods. No trade targets were announced.

162. On 7th October, a 5-year trade agreement was signed with Bulgaria, providing for exports of at least 20,000 tons of Cuban sugar annually.

163. On 26th October, a 5-year trade agreement was signed with Roumania calling for exports of Cuban sugar, but giving no indications as to the volume or value.

164. At the end of November China announced another important move. On 30th November, 1960, a new trade agreement was signed, by which China pledged to double in 1961 the intended sugar purchase agreed under the trade and payments agreement signed only four months earlier. China is committed to purchase 1 million tons of sugar in 1961 at the price of 4 cents per pound (which is about 0.75 cents above the world market prices). Cuba, for her part, is to purchase in 1961 about \$80 million worth of Chinese products. By the end of November 1960, about 20,000 of the 100,000 metric tons of rice purchased from China under the July agreement had arrived in Cuba, and a large part of the 500,000 tons of Cuban sugar purchased by China during the past twelve months had been shipped.

**TABLE 7 - TOTAL BLOC TRADE WITH SELECTED UNDERDEVELOPED COUNTRIES
OUTSIDE EUROPE(1) - 1958 AND 1959**

	Bloc Exports		Bloc Imports	
	1958	1959(2)	1958	1959(3)
<u>MIDDLE EAST</u>				
Iran	37.7	36.6	30.8	17.4
Iraq	6.0	18.2	(a)	6.1
Israel	7.8	6.2	6.7	5.2
Jordan	7.5	2.5	0.9	0.9
Lebanon	6.5	7.8	2.5	0.7
UAR(Egypt)	219.5	183.6	220.8	229.6
UAR(Syria)	24.7	19.9	36.9	12.3
<u>AFRICA</u>				
Ghana	6.8	10.2	1.1	6.2
Guinea	-	9.0	-	5.2
Morocco	22.2	15.4	13.9	14.5
Sudan	8.0	12.4	9.1	14.1
Tunisia	2.6	4.2	2.8	4.7
<u>ASIA</u>				
Afghanistan	27.3	32.5	16.2	20.0
Burma	31.3	25.4	8.8	3.0
Cambodia	5.4	6.2	0.2	2.5
Ceylon	33.8	36.4	21.5	23.7
India	137.4	97.0	71.0	110.4
Indonesia	47.3	57.7	54.1	72.3
Malaya	68.8	55.8	115.9	118.5
Pakistan	16.1	7.9	21.2	10.9
Thailand	3.1	3.1	3.2	2.4
<u>LATIN AMERICA</u>				
Argentina	55.8	49.1	63.6	54.1
Brazil	29.0	49.3	45.8	55.3
Chile	2.3	1.1	0.3	-
Cuba	2.0	1.4	17.7	16.5
Ecuador	0.1	-	0.2	-
Mexico	2.3	2.4	0.6	1.6
Peru	0.9	0.8	0.6	0.1
Uruguay	10.3	13.4	29.4	27.4
Venezuela	4.5	6.8	-	-

- (1) Data based on official trade statistics of the Free World countries. The bloc exports indicated are the Free World trading partners' reported imports. The bloc imports are the Free World trading partners' reported exports (with the exception of Afghanistan, Burma, India, Thailand and Uruguay).
- (2) January - December, 1959; 12 month rate for: Venezuela, January - May; Iran, Lebanon and Chile, January - June; Jordan, January - September.
- (3) January - December, 1959; 12 month rate for: Iran, Lebanon, January - June; Cuba, January - August; Jordan, January - September
- (a) less than \$50,000.
- = indicates that no figure for trade is known, although some trade may have taken place.