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A CRITICAL APPRAISAL OF THE SOVIET AID PROGRAM

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I

Communist countries are engaged in relentless guerilla-type economic warfare to sow discord and distrust among free world nations and to estrange the U. S. from its friends and allies. While on a modest scale so far, their foreign economic activities are calculated to take advantage of every problem and disturbance in the free world. The bloc has had signal success, not so much in the development of satisfactory commercial relations, but rather in convincing underdeveloped countries, through the astute conduct of their operations, that the bloc is sincere in purpose and anxious to promote their welfare. As prelude to a determined assault on Western alliances and in order to encourage neutralism, the bloc has all but replaced its previous uncooperative and belligerent attitude with a mask of benevolence and friendship.

II

The Soviet aid program is not Soviet, not aid, and not a program. While it is customary to speak of a Soviet aid program, Eastern Europe and China play important roles, although nothing is done which conflicts with Soviet aims. Further, the bloc is using three devices. One is minute amounts of aid--\$1.4 million a year through the UN, some small Soviet grants, and a few gifts by China. Much more important is the establishment

of lines of credit for selected countries. In this, both the USSR and Eastern Europe participate actively. The third device is trade. Eastern Europe predominates in this activity. In the Middle East in 1956, for example, the USSR imported only 17 percent of total bloc imports from the area, while Czechoslovakia imported twice as much.

The efforts of the bloc cannot properly be called a program if by a program is meant carefully planned and executed projects designed to assist less fortunate countries. The bloc accepts no responsibilities. The usual practice is as follows: a country makes known its desire for a project. If it is opportune and suits the aims of the bloc, the latter will agree to provide assistance, but without any identity of authorship. Thus, if the project is not what is needed or if something else is needed more, the bloc is not formally answerable. The Syrian agreement illustrates this. The 1954 IERD survey is now to be implemented by the USSR. If the projects are not successful, then Syria, not the USSR, has erred. Furthermore, bloc insistence on bilateral trade is particularly ~~important~~ <sup>self-serving</sup>. It is economically unsound and has been abandoned almost universally, except by the bloc and countries the bloc can persuade to trade bilaterally.

Despite the impressive reputation and generally favorable impact, it is necessary to be somewhat cautious about the amount of bloc credit. The figure of \$1.9 billion is probably correct, but refers to commitments made over a three-year period on which deliveries will extend over ten years or more. Further, an arbitrary valuation of \$400 million has been placed on arms. These arms, however, came from the Soviet hardship

reserve and are obsolete by present Soviet standards. Excluding arms, deliveries have probably not been more than \$200 million to date.

Most of the bloc loans are in the future. For instance, the USSR has claimed a \$100 million loan to Indonesia since August, 1956, but that country accepted it only three weeks ago. Only a minute fraction of the Afghan \$100 million loan has been used. Deliveries on the \$126 million loan to India will not begin until 1959. The ink is hardly dry on the loan agreements with Egypt and Syria. Some of the Yugoslav loans will not begin until 1960.

Bloc activities have not built up gradually but rather have been sporadic, following the vicissitudes of international politics, the opening of favorable opportunities, and problems in the domestic economy. For instance, between November, 1956, and October, 1957, no significant loans were made. This period coincided with difficulties in the Soviet economy—planning reorganization and plan revision, cuts in the growth rate, and the decentralization scheme—as well as unrest and revolution in Eastern Europe.

Because bloc efforts have been intermittent and so far on a modest scale, it should not be concluded that these countries could not mount a large sustained program. The USSR is the second most powerful industrial nation and credit commitments are quite small relative to its production. Furthermore, there may be some strictly economic forces favoring the bloc offensive. Eastern Europe and China probably have increasingly

become a burden to the Soviet economy. In order to maintain its control over the bloc, the USSR has provided raw materials and machinery which it could have used advantageously. The development of more extensive trade between Eastern Europe, China, and the rest of the world relieves the USSR of making such provisions.

In addition, 30 years of industrialization has had an effect upon Soviet cost structure. The costs of capital goods have declined as labor and management became more skilled, as plant and equipment increased productivity, and as large-scale production became possible. Extractive industries, on the other hand, have faced increasing costs because of reduced amounts of low-cost ores, coal, and other minerals, as well as high-yield land. It may now be increasingly to Soviet economic advantage to sell simple types of capital goods and buy raw materials and food.

The techniques of bilateralism and state trading also tend to improve Soviet terms of trade. The absence of the bloc from the world market for raw materials, for instance, prevents the price rise which would certainly have occurred if the bloc had not made its purchases bilaterally. The bloc can even offer a price slightly higher than the world market and still come out ahead, since this practice enables the bloc to raise its export prices. Thus, in a setting of bilateralism, the terms of trade tend to favor the bloc by keeping its purchase prices lower than they would be if everyone had been in the world market and bloc selling prices higher than they would be in direct competition with Western products.

The capability and even the existence of an economic advantage, however, do not necessarily imply anything about the magnitude of bloc efforts. The size of these efforts is determined by the bloc's goals, ideological considerations, and internal problems. Several factors suggest a continued modest activity. The bloc has large capital requirements itself if it is to maintain its growth and equip its armed forces. Underdeveloped countries also want capital goods and so are competing directly with internal bloc programs. It is worth noting that bloc capital goods exports have been relatively small. Only 17 percent of Soviet exports were capital goods in 1956.

The USSR has large and continuing commitments to the bloc. In the postwar period loans of \$7 billion have been made to Eastern Europe and China and in 1956, for instance, 91 percent of Soviet capital goods exports went to the bloc, supplying one-half of its machinery requirements. More loans will be required to maintain economic viability in these areas and to prevent attempted defections. Furthermore, the dogma of autarky, basic to Communist doctrine, hampers normal commercial relations. Communist leaders, schooled in the fundamental importance of self-sufficiency and brought up in an era of capital goods shortage, have difficulty thinking in terms of large-scale trade and capital goods exports.

Ultimately, the size of bloc efforts will be determined by what it takes to accomplish its goals. So far, a relatively small activity has gone a long way toward achieving these aims. Since the bloc is not

basically interested in stability and economic development, a massive program may not be necessary. After all, it is cheaper to tear down a building than it is to construct it. Economic factors are permissive, enabling the bloc to pursue a course of action the driving force of which is political gain for the bloc and political isolation for the West. That this is so has been demonstrated many times, in the placement and timing of loans, in occasional "loss leaders," and in the self-evident effort to enhance Soviet influence and prestige while simultaneously attempting to destroy NATO, the Baghdad Pact, SEATO, and other friendly relations with the West.

Much is made of the bloc's "no strings" policy. This is just not so. True, such strings are not always formal, although in some cases they are. In the Afghan-Soviet treaty of friendship, Afghanistan agreed not to form alliances inimical to the USSR. Other non-aggression pacts have similar provisions. More frequently, however, the strings are just simply understood. But they are just as real. A sympathetic attitude, including a present or growing neutralist or pro-Soviet posture, precedes or accompanies many of the commercial contacts of the bloc with underdeveloped countries. Furthermore, the USSR has a firm grip on the string and pulls it when necessary. When Yugoslavia displayed a mildly anti-Soviet attitude in 1957 the USSR promptly delayed its loans. The loans have been restored now that relations with Tito are more amicable, but there will still be delays to remind him that the USSR expects more than just repayment.

The success of bloc efforts in particular countries and situations has not been complete. Underdeveloped countries have been disappointed at the slow rate of delivery of bloc goods. In 1956, for instance, the USSR delivered only \$21 million in machinery to all of Southeast Asia and the Middle East. Eastern Europe has done better, but the entire bloc, instead of loaning to underdeveloped countries, has in many instances become a debtor by its failure to export. Burma, for instance, has been bitterly disappointed by the Soviet failure to deliver goods already paid for in rice. Indonesia has had trouble with export surpluses with Eastern Europe. Egypt became so disturbed over its credit balances that it insisted on bloc canal toll payments in transferable currencies. Furthermore, the quality of bloc goods has in some cases been inferior--rusty tins of milk, rancid butter, poor quality capital goods, wheat, textiles, refinery products, and other items. Products have frequently been overpriced by Western standards and there have been inordinate delays in receiving goods. In some cases an especially bad boner has become a cause celebre in the recipient country. The cement delivery to the Rangoon docks just before the monsoon season is a case in point. In addition the bloc often resells the products it buys, sometimes at a lower price and in the original selling country's markets. This is particularly true of rice and cotton. The bloc cannot be counted upon for annual purchases of any given amount. Purchases depend on internal planning foibles, temporary needs, and political considerations.

III

But let it not be thought that just because Communist efforts are not massive and have not been an unalloyed success that these foreign economic activities do not represent a very substantial threat. There is a clear and present danger. Some underdeveloped countries have been influenced, and a few, such as Egypt, are heavily mortgaged to the bloc.

Overriding the particular successes and failures of bloc actions, however, is the fact that due in no small part to its foreign economic operations the bloc has radically altered the world picture of itself in an incredibly short period of time. Before the initiation of these activities the stereotype of the bloc was of a malevolent monolith, without scruple, and interested only in extending its own power, by force if necessary. Now many countries think they see a new Soviet image--benevolent, interested in helping other countries economically, and anxious to reduce tensions.

This new posture is the most important impact of the bloc offensive. But the new posture is only the come-on. If the bloc can maintain this new image, learn from its mistakes, and avoid embarrassing misadventures, it can possibly achieve more specific successes, extend its influence, and ultimately succeed in isolating the US from its friends and forcing it to live in a neutral and hostile world. This is the danger.



IV

How does one account for this danger? Certainly one of the most influential elements is the novelty of the bloc offensive. Compare Soviet behavior only a few years ago with the present and much of the attraction is explained. The tactics adopted were designed specifically to increase the political and psychological impact. The bloc has certainly been cashing in on the change.

Another aspect of the impact can be explained in terms of the growth of the Soviet economy and centralized planning techniques by which it was accomplished. Underdeveloped countries, some of whom have adopted economic planning, have been told repeatedly that 30 years ago the USSR was underdeveloped but that progress has been so rapid that it can now assist them. Underdeveloped countries are particularly impressed by the apparent prowess of Soviet industry. The promises of capital goods are received with enthusiasm; these countries desperately need machinery for economic development. Promises to buy their raw materials are also greeted with fervor; these countries have difficulty in selling their products at prices they regard as satisfactory.

Thus, the content of bloc assistance has carried weight with underdeveloped countries. They want industrial development; they see the gigantic accomplishments of modern industry, are impressed by large-scale production techniques, and value the trappings of industry and technology, not only as a way to raise their standards of living, but

also as symbols of national power. Every country must have a steel mill, a refinery, a nuclear reactor. The bloc offers them these things, as well as the technical assistance to put them in operation. The bloc also tells them that these are the things they need, and that centralized planning and bloc assistance is the way to get them.

Furthermore, many underdeveloped countries are terrified at the prospect of war and are anxious that some form of harmony exist in the world. This has been reflected in an effort to stay aloof from political realities through a policy of neutralism. By its new posture the bloc has added force to neutralism. By becoming respectable, by frequently espousing policies which underdeveloped countries regard with favor, and by providing economic assistance, the USSR has, in the view of some countries, become a power worthy of friendly neutralism. Some countries even feel that accepting assistance from the bloc is proof of their neutrality.

One of the most important reasons for the impact of bloc assistance has been effective use of propaganda. Propaganda has long been a position of strength for Communist leaders and every device has been used to impress countries with the size, importance, and mutually advantageous nature of bloc efforts. Much emphasis is placed on the apparently favorable terms and the supposed absence of strings. Communist propagandists practice the art of the big promise and the big offer. Underdeveloped countries are also impressed by the attention of high Communist officials and the respectful attitude of negotiators and diplomats.

Bloc propaganda can only be characterized as shrewd and very influential.

Much of the effectiveness of bloc efforts must ultimately be explained in terms of its flexibility and opportunism. The bloc does not have a broad program. Rather it is selective and specifically designed to exploit any favorable opening. The bloc seeks to take advantage of any real or apparent problem and difficulty in the free world. The differences between Afghanistan and Pakistan over Pushtoonistan, the development needs and export problems of Burma, Egypt, India, and Indonesia, the falling prices of primary products, the fear of Israel and anti-colonial feelings of Egypt and Syria, and the foreign exchange problems of Iceland are illustrative of the situations the USSR attempts to manipulate. These situations are not necessarily of Soviet making, but the USSR is always ready with a loan, a trade agreement, a purchase contract, transit rights, arms, or technical assistance.

V

The so-called Soviet aid program is thus immensely complex. Its size, content, conduct, and operational characteristics are contingent not only on bloc capabilities and intentions, but also upon the number and kind of opportunities, reception in underdeveloped countries, and the general international political and economic climate.

The question comes naturally, of course: What is to be learned from the bloc economic offensive? First, bloc activities are a serious

menace to economic and political stability and progress. Second, while ostensibly directed at helping underdeveloped countries, the bloc offensive is in reality a weapon aimed straight at the heart of Western defense--its ring of alliances and friendly relations throughout Asia, Africa, and Latin America. Third, the most impressive aspect of the offensive is its conduct--the generally astute, perspicacious, and publicity-laden manner in which it has been undertaken.