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AFFAIRS BEFORE THE SENATE FOREIGN RELATIONS
COMMITTEE ON ECONOMIC ACTIVITIES OF THE SOVIET
BLOC IN LESS DEVELOPED COUNTRIES, MARCH 3, 1958

You have asked me to report to you on the scope and nature of Soviet bloc activities in the foreign economic field. This, of course, is a large and complex subject, embracing as it does all aspects of the bloc's economic relationships with the rest of the world, ranging from aviation to east-west trade. There is, however, a new aspect of Soviet economic policy toward the free world which is becoming a matter of major concern to the United States. That is the economic offensive in the less developed countries. It is to this new economic challenge of International Communism that I would like to address my remarks today.

The Department of State has received many inquiries from the public, the press and the Congress for information on the Soviet economic offensive. In response to these the Department and the International Cooperation Administration have published summaries of the main features of the Soviet economic programs. Also, the Department of State now has in preparation a more detailed study which will shortly be made available to the interested Committees of the Congress. My remarks today are based largely on this material. When I speak of the Soviet economic offensive, or of the Soviet bloc, I mean to cover the whole of the International Communist system including Communist China.

The beginning of the Soviet economic offensive dates from about 1953 and corresponds roughly with the emergence of new leaders in the Kremlin after the death of Stalin. In the hands of the new leadership aid and trade have become a part of an intensive diplomatic campaign which has concentrated heavily on points of weakness within the free world and which has been conducted with vigor, imagination, flexibility and despatch.

The bloc economic offensive consists of three main elements:

First, the Soviet leaders have launched a wholly new program of economic assistance to the less developed countries outside the Communist bloc, a program which has now reached sizeable proportions.
Second, they have stimulated a rapid increase in trade - both exports and imports - between the bloc and free world countries.

And third, they have stepped up the flow of Communist technical assistance to free-world countries by sending bloc technical personnel abroad and by bringing free-world students into the bloc countries for technical training.

The economic package of aid, trade, and technical assistance is being displayed through an effective advertising campaign. High Soviet officials have made numerous well-publicized visits to under-developed countries. Bloc countries are participating energetically in fairs and exhibitions throughout the world. Trade missions are being sent to a large number of countries. Special international conferences in a setting favorable to the interest of Communism have been promoted, such as the Afro-Asian Peoples' Solidarity Conference at Cairo.

It was at this conference in December 1957 which was attended by many non-Communist delegates from Asia and Africa, that the Soviet representative described the Communist economic package in its most attractive and colorful wrapping:

"We do not seek to get any advantages. We do not need profits, privileges, controlling interest, concession or raw material sources. We do not ask you to participate in any blocs, reshuffle your governments or change your domestic or foreign policy. We are ready to help you as brother helps brother, without any interest whatever, for we know from our own experience how difficult it is to get rid of need. Tell us what you need and we will help you and send, according to our economic capabilities, money needed in the form of loans or aid ... to build for you institutions for industry, education and hospitals ... We do not ask you to join any Blocs ... our only condition is that there will be no strings attached."

Now I would like to describe the three parts of the Soviet economic package in more detail.

The bloc aid programs

As I have indicated, the basic policy decisions of the Kremlin which led to the economic offensive were probably made sometime in 1953 and appear to have been associated with the advent of new leadership and new policies, internal and external. The first bloc loan to a country outside the Communist bloc (apart from ordinary commercial credits) was in January, 1954, when the Soviet Union extended to Afghanistan a loan of $3.5 million for economic and technical assistance. By the end of 1954 bloc credits and grants to the less developed countries outside the bloc totaled $10,600,000. By the end of 1955 they had
had risen to $305,000,000. At the end of 1956 they were nearly $1.1 billion and at the end of last year, 1957, they totaled over $1.9 billion. There have been offers of additional credits - notably one of about $30,000,000 to Ceylon - in the first two months of 1958.

I have here a chart setting forth the country breakdown of bloc aid outstanding at the present time. This chart shows that, with the exception of Yugoslavia, a special case, bloc aid has so far been heavily concentrated in Asia and the Middle East. Egypt, Syria, India, Afghanistan, Indonesia, Ceylon, Cambodia, Nepal and Yemen account for all but a small part of the total.

These are areas of the world where history, economics and popular feeling have combined to make Soviet aid offers attractive to a degree not well understood by Americans. In order to understand, we need to remember that in all of these countries living standards are desperately low - the highest per capita income does not exceed $110 a year - and that the local governments are necessarily committed as a matter of the highest domestic political priority to promote economic development as rapidly as possible. We need to remember, also, that most of these countries were formerly parts of the colonial empires of Western Europe and that this historical fact has understandably given rise to continuing hostility and to a tendency to blame present economic problems on previous political status. The people of these countries have had no direct experience with the iron rule of Soviet imperialism. Finally, we have to remember the simple fact that because the Soviet Union itself has recently risen from a backward economy to an industrialized economy its offers of assistance have a special appeal to the people of these countries, most of whom are still unaware of the brutal methods of repression and privation through which the U.S.S.R. has forced its economic gains.

The bloc economic credits thus far extended to the less developed countries outside the bloc have been characterized by favorable terms from the viewpoint of the recipient countries. Typical bloc development assistance is in the form of a loan, although a few grants to countries in the Far and Middle East have been made. The customary interest rate is 2½%. There is usually a period of one year or more after deliveries are completed before repayment of the loans must begin. The period of repayment is usually 12 years, which means that many of the loans run for 15 years or more from the beginning of deliveries.
An important feature of the repayment provisions, especially attractive to countries which find difficulty in selling their exports on the world market, is that the Soviet bloc is usually prepared to accept goods in repayment as an alternative to payment in convertible currencies.

Considerable publicity has been given to the low interest rate of 2-1/2% charged by the Communists. In contrast, United States loans carry substantially higher interest charges which normally do not go below the cost of money to the United States Treasury, now about 3-1/2%. The Soviet rate of 2-1/2% approximates the rate charged domestically by the Soviet State Bank on short-term credits. The U.S.S.R. may have chosen the 2-1/2% rate as one which would preserve the non-political appearance of the loans and yet symbolize the attractiveness of Soviet credits in contrast to those of the United States and other free countries. No doubt the Soviets would claim, as one of the benefits of communism, that capital costs are lower in communist economies than in the free countries. Yet real capital costs must be extremely high in the Soviet Union, where consumption has been consistently and severely repressed in order to obtain the resources for capital investment. It is reasonable to conclude that the 2-1/2% rate of interest charged by the Soviets on their credits to the less developed countries is a concealed subsidy.

The attractiveness of a loan must be judged by many factors, and not only by the interest rate. For example, although United States development loans for overhead -- that is non-profit making projects -- would carry interest at 3-1/2%, repayment might be scheduled over a period as long as 30 or 40 years, thus reducing the size of annual payments. Also, in a number of cases loans from our Development Loan Fund could be repayable in local currency, thereby avoiding a burden on the balance of payments of the debtor country.

The developmental projects which are being financed by bloc assistance are often large-scale enterprises or programs having a substantial political and economic impact.

In India, for example, the U.S.S.R. has agreed to supply the equipment for a large and complete steel plant at Bhilai, and to supervise its construction. The Soviet contribution of $132,000,000 in machinery and structural steel is financed by a 12-year loan at 2-1/2% repayable in convertible currency or goods. The plant will have an annual capacity of 1,000,000 tons of ingots and 750,000 tons of rolled products and is scheduled to be in operation by 1959. In order to carry out the project a large number of bloc technicians and engineers have been sent to India. In addition, about 700 Indian skilled workers, technicians and engineers will receive training in the U.S.S.R.

The Bhilai steel project, while small in comparison with steel plants in the United States, is of considerable significance to Indian economic development. This one plant will increase India's present steel capacity by 60 percent and will result in a savings of foreign exchange to India of some $80,000,000 yearly.

In Egypt
In Egypt the most spectacular of the Soviet credits was the Soviet-Egyptian arms agreement of 1955 through which Egypt mortgaged an important part of its future cotton crops in return for Soviet arms. However, the U.S.S.R. is now giving Egypt economic help as well. In November, 1957, the Soviet Union agreed to provide $175,000,000 to finance machines and equipment for 65 projects in Egypt, including iron smelters, steel fabricating plants, shipyards, textile mills and other enterprises. Shortly thereafter Czechoslovakia agreed to provide Egypt with an additional $56,000,000 in credits for industrialization. The two credits together will provide 50% of the total foreign exchange cost of Egypt's $700,000,000 industrial development program. The terms are similar to those agreed upon with India.

Egypt has a population of 23,000,000 people who virtually depend upon the productivity of 6,000,000 acres of land. The only possibility they have to increase their present low income of about $110 per capita annually is to expand their agricultural acreage and to promote a greater degree of industrialization. This requires not only a favorable market for cotton but also a sizeable inflow of long-term capital from abroad. In the current situation in the Middle East the Soviet Union is providing Egypt with some of both, thereby enhancing its prestige and influence in the area.

The recent Soviet development credit to Syria is a particularly interesting example of the bloc economic offensive, not only because of its size in relation to the Syrian economy but because its full implementation could lead Syria into troubled economic waters. The Soviet-Syrian economic agreement of October, 1957, provides that the U.S.S.R. will finance, over a 7-year period, about 30 percent of the cost of 19 major Syrian development projects - including hydro-electric power, irrigation works, railways and bridges, mineral exploration and a fertilizer plant. If all projects are actually completed the Soviet contribution would approximate $168 million. However, if Syria is to defray the local currency costs of all these projects, estimated at $390 million, our economic experts believe that there would have to be a dangerous degree of money creation, resulting in serious inflation. The Communist prescription for meeting such a situation, of course, would be the introduction of complete State control of the economy in order that resources could be directed away from consumption into development.
I should point out that we do not yet know the method of implementing the Egyptian and Syrian economic agreements under the new United Arab Republic.

In Indonesia, growing economic and political difficulties have attracted Communist interest. Repeated bloc offers of arms as well as economic aid have been made to Indonesia during the past few years. However, it was not until February of 1958 that the Indonesian Government ratified a major economic aid agreement with the U.S.S.R. which had been negotiated in 1956. The agreement provides for a Soviet credit to Indonesia of $100 million for industrial equipment, building materials and resource surveys, as well as for Soviet-Indonesian cooperation in the field of atomic energy. The terms are like those for other Soviet credits, including a provision that Indonesia may repay in goods as well as convertible currency.

**Bloc technical assistance**

Along with the increasing flow of bloc aid there has been a flow of bloc technicians, and the bloc has provided training facilities in the U.S.S.R. and the European Satellites for visiting students and technical personnel from the free world. During the last half of 1957 alone we estimate that over 2,300 bloc technicians spent a month or more in 19 underdeveloped countries. Most of these - some 1,600 - are associated with economic development projects. During the past year about 2,000 technicians and students from the underdeveloped countries have been brought to Moscow, Prague, Peiping and other bloc centers for study and training. Of these some 500 have enrolled in universities or for other advanced training, often for a period of several years.

As in the case of credits, technical assistance rendered by the bloc is highly concentrated. About 80 percent of bloc technical personnel abroad are found in Egypt, Syria, India, Indonesia and Afghanistan. Bloc technicians are reported to be competent in their field of specialization. Their living standards are much closer to those prevailing in the countries they visit than are the living standards of our own technical personnel. There is no evidence to indicate that they have as yet engaged in extensive or open propaganda activities. Yet it would appear inevitable that there is great opportunity for the spread of Communist ideology through the exchange of large numbers of students and technical people between the Soviet bloc and many of the less developed countries which have no strong traditions of political democracy or private enterprise.

To sum
To sum up the aid and technical assistance programs of the Soviet bloc: They have grown rapidly in little more than 3 years. They are now large enough to have a substantial economic and political impact in the selected areas. They are, so far at least, heavily concentrated in parts of the free world where conditions are most inviting. They are extended on terms favorable to the recipient, both as to conditions of repayment and the form of repayment. They are accompanied by a large two-way flow of technical personnel between the bloc and recipient countries. They are undertaken with despatch and are, on the whole, managed with competence.

It is not my purpose today to compare the bloc assistance programs with our own, which, taken as a whole, are much larger and extend over a much broader geographic area. I would like to point out, however, that in the countries in which the bloc has centered its efforts, bloc economic assistance is sizeable in comparison with that extended by the United States Government and American private enterprise. As you can see from this chart, between the middle of 1955 and early 1958 bloc economic assistance to certain countries of Asia and the Middle East amounted to more than $1 billion. In roughly the same period, and for the same grouping of countries, United States governmental economic assistance and new U.S. private investment, mostly in the oil industry, together amounted to a little less than $2 billion. The two totals are not strictly comparable because the bloc credits are to be drawn down over a period of years. Actual deliveries under the bloc economic credits are generally proceeding in accordance with agreed schedules but are still small in relation to total commitments. Nevertheless, it is clear that in this area the Soviet effort is substantial.

The bloc trade program

Partly because of its novelty, the foreign aid side of the bloc economic offensive has received more publicity in the free world than bloc trade. Soviet statements, however, have tended to stress international trade. A Soviet author states that "The most important form of economic cooperation of the U.S.S.R. with other powers, including the countries which are poorly developed in regard to economic relationships, is foreign trade."

Traditionally the Soviet Union has participated in world trade only to a negligible extent. The variety of Russia's economic resources has enabled it to carry out with considerable success the Soviet doctrine of autarchy, or national self-sufficiency. The economies of the Eastern European satellites, on the other hand, have been historically tied to the international market, and their need for trade with the free world has continued despite economic distortions imposed under Communist domination. In the bloc trade drive of the past few years the Satellite countries have accordingly participated to a major degree, although there has been a substantial expansion of the trade of the Soviet Union itself.
The trade offensive has been spearheaded by the campaign to broaden the bloc's network of trade-agreements with the less developed countries. These bilateral agreements usually express the willingness of both parties to engage in trade, establish the types of commodities that might be exchanged, sometimes set target quotas for these items, and arrange for the means of payment. The underlying principle of the agreements is barter -- that is, a bilateral balance is sought in the exports and imports between the bloc country and the free-world country. The bloc's bilateral trade agreements with the less developed countries of the free world -- that is to say with that part of the free world which has been the main target of the bloc aid program -- numbered only 49 in 1953. By the end of 1957 their number had grown to 147.

Bilateral trade agreements, accompanied by aggressive advertising through trade fairs and exhibitions, have enabled the bloc to increase its trade with the less developed countries to over $1.4 billion in 1956. This was an increase of 27 percent over 1955 and of 70 percent over 1954. In 1957 bloc trade with these areas probably rose by another 20-25 percent.

Except in a few cases, bloc trade with the less developed countries has not reached the point where dependence on the bloc market has become critical. The questions are rather the trend of the trade as a whole and the growing bloc capability to create dependence in selected markets. In 1953 the bloc accounted for only 12 percent of Egypt's exports; but in 1956 it absorbed 34 percent, and last year, 1957, about 46 percent. A similar pattern has already emerged in Iceland's trade and is now developing in Syria. Broadly speaking, throughout Asia and the Middle East trade with the bloc has increased faster than trade with the free world. With certain Latin American countries, also, the bloc share of trade has increased since 1953.

It is clear that wherever bloc aid programs expand, trade expansion will follow. As bloc credits are drawn down by the recipient nations imports from the bloc will increase. And as these credits are paid off, frequently in commodities, exports to the bloc will grow. The trade and aid programs of the bloc are, therefore, closely related to one another.

The Soviet bloc has also engaged in opportunistic trading activities as an entering wedge in situations favorable to its political interest -- a modern form of economic warfare. It has taken advantage of Burma's temporary rice surplus, Egypt's cotton disposal problem, and Iceland's difficulty in marketing fish to increase its economic relations with those countries.
It has recently tried to arrange a tie-in barter and aid deal for Sudan's cotton, which was hard to move because it was priced above the world market. Expedient offers have been made to buy other products from free-world countries faced with marketing difficulties, including Uruguayan wool and Colombian coffee. Resentment at restrictive features of free-world commercial policies are exploited by Communist propaganda, which also plays upon the widespread feeling in underdeveloped countries that the industrial countries of the free world can somehow manipulate the terms of trade to the disadvantage of exporters of primary products.

Their own theories which predict the decline of the free enterprise system have made the Communists quick to exploit any weaknesses which they perceive in international economic relations within the free world. Communist doctrine has steadfastly held that our free system is in a state of crisis, characterized by domination of the underdeveloped countries by the industrialized countries, periodic deep depressions, and economic class warfare. The development of a Communist market in the field of trade is portrayed by the leaders of the Kremlin as helping the less developed countries to reduce their economic dependence on the United States and Western Europe, thus furthering their political independence and national sovereignty. In this context, anything the bloc does to exacerbate tensions within the free world is considered as "giving history a push" in hastening the decline of a decadent "Western imperialist capitalism."

**Bloc capabilities**

The bloc economic offensive has already gained momentum. How much farther can the Soviet leaders use the economic power of the bloc to advance the political objectives of International Communism?

The answer to this question depends partly upon the economic resources available within the bloc and partly upon the policy of the Soviet Union.

The rapid growth of the economy of the U.S.S.R. is a matter of record. Its gross national product is now estimated at $170 billion. It has been growing at an average annual increase of 7 percent, as compared with 4 percent for the United States. Soviet industrial growth is increasing even more rapidly. It is now advancing at an annual average rate of 8 or 9 percent, as compared with 4 percent for the United States. The U.S.S.R. is now the second greatest industrial power in the world.

The U.S.S.R. also has at its disposal the resources of a large part of Eastern Europe, including the industrial economies of Czechoslovakia and East Germany.

The entire bloc,
The entire bloc, including Communist China, has a gross national product of $280 billion. It produces in quantity the principal kinds of manufactures, including machinery and capital goods, which the less developed countries require for their economic development. It is also capable of arranging its economy so as to absorb large amounts of raw materials and foodstuffs from the rest of the world - cotton, wool, hides, rubber, non-ferrous metals, oilseeds, rice, sugar, cocoa and the like.

There is little doubt, therefore, that from the technical economic viewpoint the bloc can greatly intensify its economic relations with the less developed countries of the free world. Also, it can probably do this with economic benefit to itself. Industrial growth within the bloc, which has increased much more rapidly than has the output of agriculture and raw materials probably would now make it economically advantageous to the bloc to encourage expanded trade with the free world, exchanging in increasing degree bloc industrial goods for free world foodstuffs and raw materials.

It should be observed, also, that its aid programs constitute an economic drain on the bloc only in the short run. Eventually such aid, which consists almost entirely of credits, brings its return in imported goods. It is probable, therefore, that continuing expansion in economic assistance to free world countries could be undertaken without a serious long-term strain on the bloc resources.

The principal limitation on the bloc's engagement in international aid and trade would appear to lie in the desire of the Soviet Union to avoid substantial dependence of the bloc on trade with countries not subject to its political domination. In other words, it seems probable that the bloc will not expand trade with the free world to the point where it would have difficulty in doing without imported supplies, or that it will confine large-scale expansion to areas which it can hope to dominate politically in the future.

Yet the Communist desire for self-sufficiency still leaves large room for increasing the present levels of aid and trade. Despite its considerable growth, the bloc program of military and economic aid to the underdeveloped countries, amounting to some $2 billion between 1954 and 1957, constituted less than 1% of the gross national product of the Soviet Union and Eastern European satellites for one year. Also, the total exports of the Soviet bloc in 1957 to the whole of the free world probably amounted to less than 2% of its gross national product, or less than half the ratio which prevails for the United States.
The bloc, in short, can throw into the scale sizeable economic resources not only without damage to itself, but probably with positive economic benefit. Whether it will do so will depend upon the calculations of the Soviet strategists, who will weigh the political advantages of more trade and aid against the dangers of undue economic dependence of the bloc on the outside world.

In 1955 Mr. Khrushchev told a group of visiting United States congressmen that "We value trade least for economic reasons and most for political purposes." The Soviet economic offensive is an arm of Communist foreign policy. We should anticipate that it will be pushed wherever the diplomacy of the Kremlin decides that it can be useful in gaining good will for the Soviet Union, spreading Communist ideology, disrupting economic relations among the free world, bringing free-world countries into the political orbit of the bloc, and encouraging hostility to the United States and its Allies. The extent to which the Soviet bloc can succeed in furthering these purposes through trade and aid will be importantly influenced by our own actions. For if we fail to carry forward our own trade-agreements program, thereby offering to the world only diminishing prospects of trade with us, the opportunities open to the Soviet strategists will be correspondingly enlarged.

In closing, Mr. Chairman, I would like to quote a few lines from President Eisenhower's message to the Congress on the Mutual Security Program on the attitude which our Government should adopt toward the Soviet economic offensive:

"If the purpose of Soviet aid to any country were simply to help it overcome economic difficulties without infringing its freedom, such aid could be welcomed as forwarding the free world purpose of economic growth. But there is nothing in the history of International Communism to indicate this can be the case. Until such evidence is forthcoming, we and other free nations must assume that Soviet bloc aid is a new, subtle and long-range instrument directed toward the same old purpose of drawing its recipient away from the community of free nations and ultimately into the Communist orbit."

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State--FD, Wash., D.C.