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PART III

PATTERNS AND PERSPECTIVES

THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

The agreement establishing the Organization for Economic Cooperation and Development (OECD)--signed on 14 December by 20 North Atlantic countries --has been described as an "attempt to improve the machinery of international economic cooperation to meet the broad economic challenges of the 1960s."

Specifically, the OECD convention is intended to encourage rates of economic growth in its member states which will be more competitive with those prevailing in the bloc, to channel a larger proportion of its members' resources to the development of economically backward areas, and to promote the growth of world trade on a multilateral, nondiscriminatory basis.

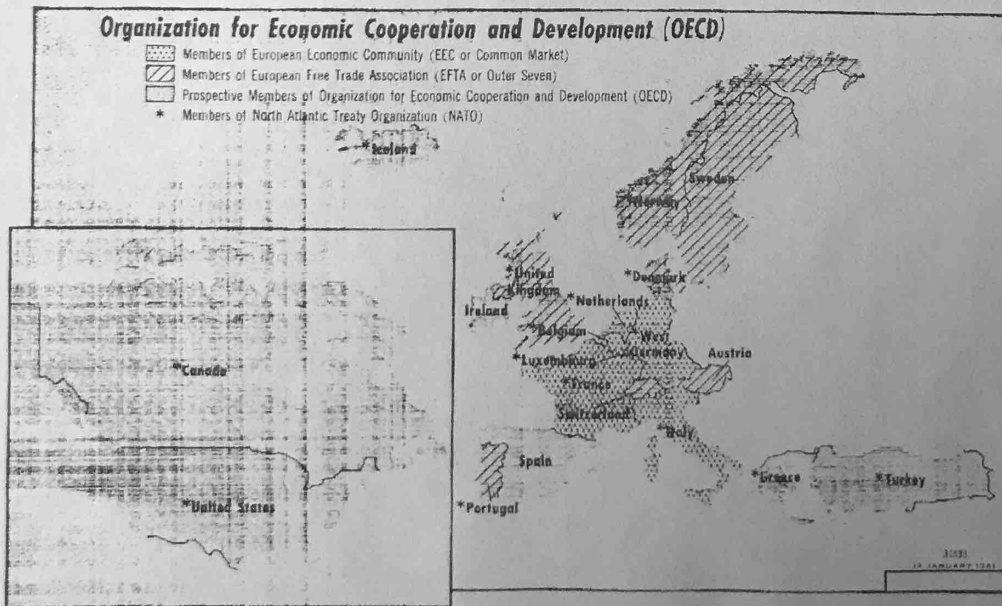
The convention does provide an organizational framework for approaching these problems in an orderly, cooperative way. The document itself, however, involves few concrete commitments, ratification by all

members is not certain, and there is considerable skepticism whether leading members are willing to make the OECD a major policy instrument. Moreover, there are unresolved differences over the priorities to be assigned to major objectives, and jurisdictional conflicts with existing organizations are already in prospect.

Background

The OECD is a successor to the Organization for European Economic Cooperation (OEEC), whose 18 European members and two associate members--the United States and Canada--will make up the new grouping.

The OEEC, founded in 1948 in conjunction with the launching of the Marshall Plan, is generally credited with a major contribution to the subsequent economic recovery of Western Europe. The recovery objectives of the OEEC have largely been achieved, and since 1957 its trade functions



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have been progressively taken over by the Common Market (EEC) and European Free Trade Association (EFTA). Moreover, with the emergence of America's balance-of-payments problems, discrimination against US exports --toward which the OEEC's intra-European trade liberalization program is still oriented--has seemed difficult to defend.

With the dual objective of discouraging such discrimination in the future and of obtaining a larger contribution from other free world countries to the burden of economic and technical aid in less developed countries, the United States took the lead more than a year ago in proposing the conversion of the OEEC into a "modern" organization. Agreement on the general outline of a successor grouping was reached last July, and since then the necessary convention has been in preparation. The resulting document is brief, and essential to its meaning is a lengthy Report of the Preparatory Committee which describes in detail the proposed structure and operations of the OECD as well as the recommended disposition of the residual functions and obligations of the OEEC.

Structure and Operations

The OECD is a typical inter-governmental organization. The chief policy-making body is the



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Council, on which all member states will be represented, either by permanent representatives or by ad hoc ministerial delegates. In addition to the Executive Committee provided for in the convention, the planners have recommended several functional committees, most important of which are the Economic Policy Committee, the Economic and Development Review Committee, and Development Assistance Committee, and the Trade Committee. The chief administrative officer is the secretary general, to which post former Danish Finance Minister Thorvald Stoltenberg has been designated.

The OECD may make decisions generally binding on its members, make recommendations to them, and enter into agreements. Unless otherwise unanimously decided in advance, decisions and recommendations require the "mutual" --i.e., unanimous--agreement of the members, each with one vote. Unilateral veto power is modified, however, to the extent that abstentions will not invalidate the applicability of any decision to those countries which have voted for it, and the entire membership is generally committed to furnish information, consult on a continuing basis, and to "cooperate closely and where appropriate take coordinated action."

Major Functions

The general purpose of the OECD is to secure the implementation of broad economic policies to which the agreement binds the members: to promote the efficient use of economic resources; to encourage scientific and technological development; to avoid economic policies which might endanger the economies of others; to reduce obstacles to trade; and to contribute capital and technical assistance to countries in the process of economic development.

In its efforts to "adjust harmoniously" the economic

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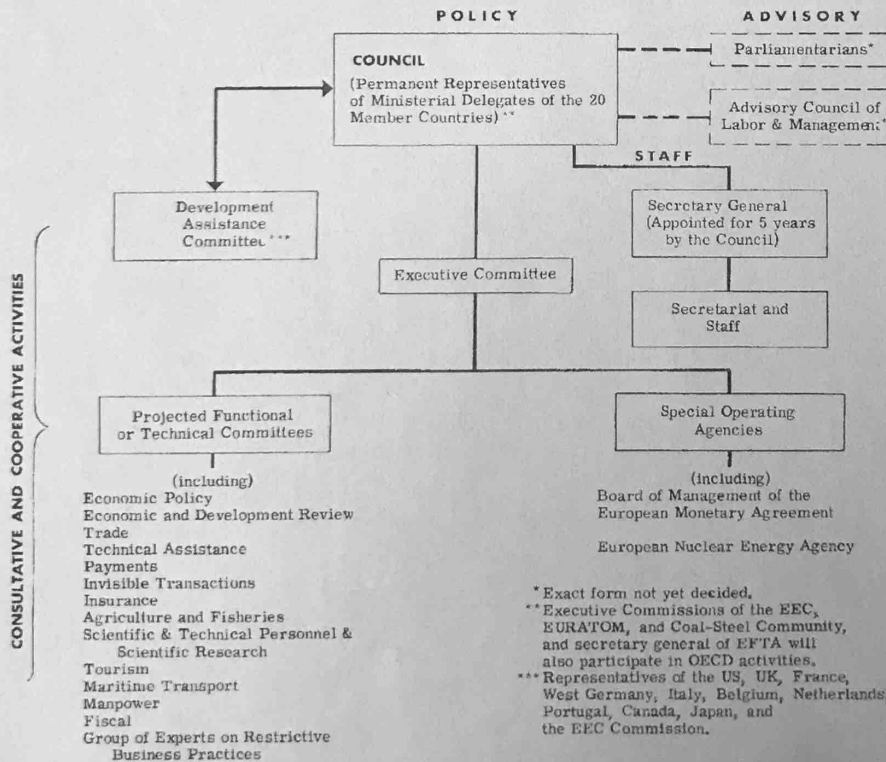
policies of the member countries, the OECD will lean heavily on the experience of the OEEC, and the main device will be the "economic review." The economic and financial situations in the individual countries will be kept under surveillance, and senior government officials will be subjected periodically to confrontation on national economic policies, with special regard to the international effects of such policies.

This approach, persuasive rather than coercive, has proved its usefulness in concerting national policies in both the OEEC and NATO, and will be employed not only by the Economic Policy Committee but also by

those on maritime transport, agriculture and fisheries, and trade. The Trade Committee, for example, is authorized to organize a confrontation on general trade policies and practices at regular intervals or whenever requested by a member; to examine specific trade problems primarily of interest to members and their overseas territories; and to consider the problems growing out of the EEC-EFTA dispute.

Committee activities will be carried out under the supervision of the OECD's Council--with the exception of the Development Assistance Committee, which for historical and tactical reasons has been given

ORGANIZATION FOR ECONOMIC AND COOPERATION DEVELOPMENT
(PROJECTED STRUCTURE)



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considerable de facto independence. This committee will take over the functions of the Development Assistance Group (DAG) --established on an interim basis early in 1960. The ten countries to which DAG membership is at present limited include those especially able to contribute more in longer term funds and developmental assistance to less-developed countries. Japan--not an OECD member--is expected to continue to participate in the work of the DAG.

Negotiating Problems

That the OECD convention was six months in preparation and has emerged without more precise commitments is largely the result of the diverging national interests of its prospective members. Of the five non-NATO countries, three--Sweden, Switzerland, and Austria--are neutrals which have been leery of giving the OECD any of the attributes of an "economic arm of NATO." Similarly, US representatives have repeatedly had to explain that inclusion in the OECD convention of more far-reaching commitments regarding trade would probably lead the US Senate to reject it.

The reluctance of many of the OEEC's members to convert that organization to new tasks and purposes has also caused major negotiating problems. In part bureaucratic inertia, continuing devotion to the OEEC also reflected suspicions--particularly in EFTA--that France and the US were principally interested in eliminating the OEEC as a potential framework of an all-European free trade area. Consequently some of the smaller European countries exerted strong pressures to retain as much as possible of the OEEC, to give special status to the OECD's Trade Committee, and to expand its functions.

Resistance to these pressures--particularly American refusal to accept the continuation of the OEEC's rules for lifting quantitative restrictions on intra-European trade--has resulted in considerable ill feeling and some imprecision.

Some functions of the OEEC will be carried over which in the American view are not pertinent to the new organization; whereas many of the so-called "acts"--decisions, recommendations, and resolutions--of the OEEC have been discontinued, the disposition of others has not yet been decided, and still others will be continued but will not apply to the United States and Canada. Moreover, these "acts" are still subject to approval by the OECD Council, and although former OEEC members are generally obligated by the recommendations of the Preparatory Committee, the US and Canada are not.

Problems Ahead

Accordingly, some European members feel that American constitutional requirements have resulted not only in a weaker organization than might otherwise have been the case, but also in an organization in which they may conceivably be more rigidly bound by codes of behavior than will the US. Many of them are therefore unlikely to ratify until the United States does, and while they regard the OECD as an "American instrument," they may not be inclined to accept American leadership.

Potential difficulties are particularly likely in the matter of relative priorities. In the American view, the issues confronting the OECD are, in order of importance, developmental aid, the concerting of policies to promote and sustain economic

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growth, and organization and promotion of trade. Many of the European members would reverse that order. Some of them feel that preoccupation with developmental aid has a "cold war flavor," and certain neutrals have implied they may later object to technical assistance activities in the OECD on grounds this may involve them in "political issues" or compete with similar undertakings in the UN.

Even those countries which recognize the gravity of the problem posed by the bloc's economic penetration in lesser developed areas profess budgetary problems or are principally interested in programs of direct benefit to their own exports.

The tendency to think of the OECD as primarily a "trade organization" is likely to persist for other reasons also --even though European views as to the exact role it should play are contradictory. Those who regard the potential trade competition between the EEC and EFTA as the major economic problem now confronting Europe have insisted on inscribing this issue high on the OECD's agenda. However, some of those who hold this view also believe the US is the major obstacle to an EEC-EFTA agreement, and recently there has been a tendency to try to resolve this issue bilaterally or in forums in which the US does not take part.

Attitudes toward the OECD's relationship to the General Agreement on Tariffs and Trade (GATT) are similarly ambivalent. Europeans are generally more skeptical of GATT's ability to promote and police world trade than is the US. While some of them therefore hold that the OECD must instead "take the lead," others profess to fear that the American tariff system and an alleged tendency to backslide into protectionism will also restrict the OECD's effectiveness. In any case, their efforts to convert

the OECD into a trade organization has caused some GATT members to charge that the industrial nations of the free world are "ganging up."

The jurisdictional line between the OECD and other organizations seems certain to be troublesome for some time, as evidenced by a heated discussion provoked in NATO last month by a paper submitted by Secretary General Spaak which to some NATO countries seemed to set forth a conception of NATO's economic role that impinged on the OECD. In response to criticism of his paper, Spaak declared it "unacceptable" that NATO should leave fulfillment of parts of the NATO treaty to another organization and stressed his doubts that "the impelling forces of the cold war could be met by OECD action, with neutrals as members."

Outlook

Once the OECD convention has been ratified, the organization's major problem is therefore likely to be the precise definition of its role and the establishment of its collective authority with the comparatively limited resources it has been given. The OECD may become a useful instrument for exerting pressure on the increasingly prosperous European countries to assume part of the burden heretofore borne by the US of economic assistance to the underdeveloped countries. It may prove even more useful as a mechanism for adjusting economic policies which, for example, have caused or aggravated such problems as the recent decline in American stocks of monetary gold.

In return, the other members are almost certain to regard the OECD as an instrument for adjusting their grievances against the US in such fields as agriculture, maritime and shipping policies, and civil aviation.

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CHINA'S INDUSTRIAL DEPENDENCE ON THE BLOC*

Communist China has received substantial help from the Soviet bloc in achieving its rapid rate of industrialization. The core of Peiping's industrialization program--intended to make China self-sufficient in such basic fields as coal, electric power, metallurgy, and machine-building--consists of 291 large industrial installations equipped by the USSR and about 100 smaller installations supplied by the European satellites. By the end of 1959, \$1.35 billion worth of equipment for these installations had been delivered and 130 projects had been completed.

Equally important, the Soviet bloc has provided substantial amounts of technical aid to China. It has (1) supplied a vast quantity of blueprints and technical information without charge; (2) sent advisers and technicians to perform a wide variety of tasks, including supervising the installation of machinery, troubleshooting, advising Chinese ministries and planning commissions, and teaching in Chinese institutions; and (3) trained Chinese technicians and researchers.

By October 1959, according to Chou En-lai, about 11,000 Soviet and 1,500 satellite technical experts had worked in Communist China. Over the past 11 years China has sent about 7,000 students, including 1,400 postgraduates, to the Soviet Union for study and 8,000 workers to Soviet industrial establishments for on-the-job training.

With bloc support, Communist China expanded production of heavy industry from 1952 to 1959 at an annual average rate of about 30 percent; without

this aid, it is estimated the rate would have fallen to about 20 percent. Outside support also had a vital effect on the quality of industrialization, enabling China to produce such "prestige" items as jet aircraft, submarines, tractors, trucks, and television sets.

Chinese Self-Reliance

Peiping's recent claims of economic self-reliance probably reflect uncertainties over the future of bloc assistance. Its assertion that it can do virtually all its own designing of new factories and make most of the necessary machinery is probably an overstatement. The Chinese claim they produced 90 percent of their new machinery and equipment in 1960, compared with only 60 percent in 1957; however, much of this is simple machinery for small plants. Concerning the more sophisticated Soviet aid projects, the Chinese have said they will produce 45 to 50 percent of the required machinery, whereas the proportion equipped by China during the First Five-Year Plan period (1953-57) was reportedly 30 to 50 percent.

As a proportion of total investment, the bloc role in Chinese industrial development has been gradually declining. Nevertheless, the absolute value of bloc projects under construction and planned for the Second Five-Year Plan (1958-62) is actually much larger than during the First Five-Year Plan. The Chinese imported \$710,000,000 worth of machinery to equip Soviet aid projects during the First Five-Year Plan and have already imported \$565,000,000 worth of such equipment in the first two years of the second.

Certain industries in China still depend heavily on the bloc for development, and this dependence will probably continue

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through the next five years. In this category are the processing stages of aluminum and steel, large electric power stations, cement, certain chemicals (nitrogen fertilizer, plastics, and synthetic fibers), heavy and complex machine tools, selected electronic equipment, naval shipbuilding, jet aircraft, heavy artillery and tanks, and nuclear energy. The degree of development dependence varies, some industries requiring imported capital equipment for further development, others needing only technical assistance, still others--such highly complex industries as naval shipbuilding, aircraft, missiles, and atomic energy--depending on both imported knowledge and equipment.

The departure of Soviet technicians last autumn puts Peiping's claims of self-reliance to the test by placing a heavy strain on China's own technicians.

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all, or virtually all, of the Soviet technicians in China were ordered home by Moscow as a result of political disputes with the Chinese. The consequences are not yet clear, but it seems likely that the withdrawal will disrupt work in at least those technically complicated industries where Soviet experts have been concentrated.

China has suffered a severe shortage of petroleum since September. In contrast to past dependence on the bloc for all POL imports, China now is arranging to buy significant amounts of petroleum outside the bloc. Chinese purchases and in-

quiries involving Middle Eastern and Indonesian oil have totaled about 150,000 tons since 29 September

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This strongly suggests that the deterioration in Sino-Soviet economic relations has not been confined to a withdrawal of technicians.

Consequences of Aid Withdrawal

The elimination of bloc material and technical assistance would result in short-run dislocations to China's economy and ultimately necessitate a scaling down of ambitious plans for rapid industrialization. The Chinese could probably find nonbloc sources for much of the petroleum products, metals, and machinery and equipment they now import from bloc countries, but pending such a readjustment, many economic activities would be severely slowed by shortages.

Transportation would be affected by a shortage of motor and aviation gasoline and of diesel and fuel oil for ships. The current POL shortage indicates how the economy can be affected by the lack of sufficient domestic production in an important commodity.

China's machine-building industries are unprepared to begin producing spare parts for much of the bloc machinery received in recent years, and the lack of spare parts would prolong breakdowns of some equipment, such as large rolling mills, forges, presses, lathes, turbogenerators, chemical plant equipment, airplanes, and ships.

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China need not depend on the bloc for petroleum products, heavy machine tools, and anti-friction bearings, since these commodities can be readily purchased from nonbloc sources. However, China's hostile attitude toward free world industrial countries and its desire to preserve economic secrets will probably keep it from taking full advantage of opportunities to acquire technology and equipment outside the bloc.

If all bloc aid ceased, Chinese industrial production in 1961-65 would probably grow by 10 percent per year, instead of the 16 percent currently projected. Many sophisticated development programs now scheduled would have to be canceled. The annual production of steel in large, modern combines, now expected to reach 28,000,000 tons by 1965, would probably reach no more than 20,000,000 tons. Generation of electric power would be reduced from current estimates of 195 billion kilowatt-hours per year by 1965 to 150 billion kilowatt-hours.

The bloc has played an important role in helping develop China's fertilizer industry, with East Germany, Poland, and Czechoslovakia reportedly scheduled to supply equipment for additional nitrogen fertilizer plants by 1962. Because nitrogen is the principal nutrient deficiency in Chinese soil, these planned imports of equipment are a key element in the Chinese program for expanding agricultural output.

Without bloc equipment it is estimated that production in 1965 of synthetic nitrogen fertilizer would be only about 65 percent of the production now projected--i.e., 3,600,000 instead of 5,500,000 tons. If bloc aid ceased, the Chinese might increase their imports of nitrogen fertilizers and try to obtain plant equipment and technical aid from nonbloc countries, but any transfer of

contracts for building complete plants would inevitably involve long delays.

In the electronics industry, the Chinese have depended on the Soviet Union and East Germany for most of the capital equipment in their new plants. With substantial technical aid from the bloc the Chinese have begun manufacturing radio and television receivers, navigational aids and radar, and communications equipment. Chinese laboratories have produced high-speed electronic computers, some types of semiconductor devices, including transistors, and a fairly wide range of more advanced communications equipment, such as medium-capacity microwave sets.

Further development of the electronics industry will depend mainly on continued receipt of design information, either from the bloc or other foreign sources, until the Chinese can develop an independent design capability. Despite a high priority given electronics in their long-range scientific program, it will be many years before the Chinese have this capability.

By 1955 the Chinese were producing large naval vessels under a program closely supervised by large numbers of Soviet technicians and dependent on the USSR for designs and many component parts. Chinese shipbuilders now handle their own fabrication and assembly of naval vessel hull structures, using domestically produced steels, including even the special steel for submarine hulls. The main shipbuilding deficiency at this time is in the production of marine components.

Termination of Soviet aid would force cancellation of the new program of building Kotlin-class destroyers and new-class submarines. It is unlikely that construction of W-class

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submarines could continue, although production probably could be resumed when the Chinese learned how to produce the now-imported components.

Following a decade of heavy reliance on Soviet technology, spare parts, and equipment,

China now faces the prospects of either coming to a new agreement with the USSR--probably on Soviet terms--or curtailing many of its more advanced industrial projects and accepting a slow-down in the rate of industrial growth. [redacted] (Prepared by ORR)

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