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Aan Zijne Excellentie Prof. Dr. J.E. de QUAY
Minister-President

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REVIEW: COMMUNIST CHINA'S FOREIGN AID PROGRAM

GEHEIM

Communist China's foreign aid program continued its expansion in late 1958 and early 1959 with new aid totaling \$275,000,000. Peiping has allocated from \$160 million to \$190 million to carry the drive forward this year. Since 1953, China has extended nearly \$800,000,000 in foreign economic aid, one third of which was made available since the end of 1957. Grants constituted the main form of China's foreign assistance until 1958, when repayable loans, which tend to strengthen economic ties between the parties involved, became the usual practice.

The major portion of Chinese aid--\$630,000,000--has been made to bloc countries, including during the last year long-term loans of \$75,000,000 to North Vietnam, an estimated \$50,000,000 to North Korea, \$25,000,000 to Mongolia, and \$13,500,000 to Albania. With the exception of Albania, where these credits will be used chiefly to finance limited Sino-Albanian trade for several years, these agreements specify large deliveries of Chinese equipment and supplies, plus technical assistance, for the industrial and agricultural development of the Far Eastern satellites. In Mongolia, 10,000 Chinese laborers have been employed since 1955 on projects receiving this aid.

While Peiping's economic offensive in the free world has been focused principally on increased trade, marked by an intensive export drive in Asia, it also includes a foreign aid program of increasing importance. Total aid extended to non-bloc countries since 1956 amounts to at least \$140,000,000, of which 60 percent has been granted since the beginning of 1958.

Indonesia became the principal free world recipient of Chinese foreign aid last year when a \$40,000,000 loan was accepted to facilitate the purchase of rice and textiles. Thus far, at least \$11,500,000 has been spent, and negotiations are in progress for the utilization of \$20,000,000 in developing Indonesia's textile industry. Communist China has also recently become involved in the bloc's arms transactions with Djakarta, but the value of the credits for this purpose is not known.

Ceylon is now receiving aid under a 1957 grant of \$15,750,000 to be delivered in the form of commodities, the sale of which provides funds for local aid projects. This aid is being augmented by deliveries of machinery and equipment under a \$10,500,000 loan, concluded last year.

Nepal is to receive machinery for a cement factory this year and other equipment by 1960 to use up the \$8,400,000 balance of the Chinese 1956 \$12,600,000 aid grant. China provided Nepal with \$4,200,000 in cash during the past two years. Last year Peiping also added a \$5,600,000 grant to its 1956 gift of \$22,400,000 to Cambodia. In response to urgent requests from the Chinese, Phnom Penh has stepped up preparatory work for the construction of several small factories, schools, and public buildings. Elsewhere in South Asia a \$4,200,000 Chinese loan to Burma for the construction of a textile factory is expected to be implemented this year.

Yemen continues to be the focal point of China's foreign aid activity in the Middle East. Approximately one third of Peiping's \$16,300,000 interest-free loan was allocated in 1958, and increased Chinese activity has been apparent in recent months. At least 300 Chinese specialists and laborers arrived to carry out road construction and factory projects. Egypt is the only other Middle East country to have received Chinese aid. In December of last year Cairo accepted a \$5,600,000 gift to assist in meeting its Suez Canal debts, a grant similar to that provided by China during the 1956 Suez crisis to meet Egypt's foreign exchange needs.

Early this year, Peiping extended its influence into North Africa by granting \$5,000,000 to the "Algerian Provisional Government," part of which is to be used for the purchase of arms and military supplies. Presumably this grant is being implemented by an Algerian military mission now visiting China.

Although China's economic aid program is small in comparison to total bloc assistance to underdeveloped areas, it is an important factor in Peiping's drive for recognition as a world power. Through long-term repayment provisions and the introduction of Chinese consumer goods in new markets, Peiping is able to enjoy the prestige associated with economic assistance and at the same time encourage the growth of future economic relations. (SECRET)

