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CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1998

20 November 1970

MEMORANDUM FOR:

SUBJECT : Material for DCI Speech

1. Attached is an outline with which we sought to bring together a set of notes on the subjects which you indicated the Director wished to address in his speech to the Business Council. These notes seem responsive both to the subject matter and long enough that you can get the sort of material you may need without unduly burdening you. The notes have been abstracted from longer studies which we can furnish in the event you would like to pursue any of the sections in greater detail.

2. I would like an opportunity to review a draft of the remarks to insure against any technical gaffs in our joint interpretation of this presentation.

Director
Economic Research

Attachments:
As stated

(20 Nov 70)

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Outline for DCI Speech to Business Council

Russian Business Practices and Influence on the Middle East

- I. Summary
 - A. Gross threat.
 - B. Balance of forces.
 - C. State of the Soviet economy.
- II. Soviet Trade Policy and Trade Practice
 - A. Summary of foreign trade policy or foreign trade objectives.
 - B. Soviet trade activity may be considered of three parts.
 1. Trade with the Communist countries of Eastern Europe -- the principal element and the principal focus of Soviet trade which I do not intend to dwell upon further.
 2. Trade with the Industrial West -- the major source for Soviet acquisition of industrial technology.
 3. Trade with the Less Developed Countries -- centered largely around exports under Soviet military and economic assistance programs and imports to service the debts created by these programs -- aimed at expanding Soviet influence in "uncommitted areas".

C. Soviet trade practice

1. Emphasis on "correct" formal practice.
2. The Soviets execute contracts and pay their bills on time.

III. Soviet Trade with the Industrial West

- A. Summary of existing trade.
- B. Soviet effort toward acquisition of technology.
- C. Soviet acquisition of technology in the West has been limited by inability to generate exports with which to pay for their needs rather than by the magnitude of the need.

IV. Soviet Trade and Aid in the Middle East

- A. Soviet policy objectives.
- B. Economic and military assistance programs.
 1. Their magnitude and focus upon various sectors of the economy.
 2. Changes in pattern.
- C. The composition or structure of Soviet-Middle East Trade.
- D. Soviet petroleum trade and its relation to the Middle-East.
 1. First premise should be that Soviet presence in the Middle East has little or nothing to do with its oil -- it's rather a function of Mid-East geography.

2. As a by-product the USSR earns a lot of hard currency in the Mid-East to support its purchases in Western Industrial equipment.
3. USSR is the 2nd largest producer of oil in the world and is itself an important oil exporting country -- particularly for the Communist world.
4. The USSR may have a longer run interest in Mid-East oil should it continue to defer needed technological developments in its own production of crude.
5. The USSR will tend to behave "correctly" in its relations with the Mid-East in dealing with the latter's oil because to do otherwise would run the risk of economic retaliation from the West and the risk of Mid-East accusations that Soviet advice was self-serving.

The Soviet Economy

In 1970, the Soviet economy will post a good recovery from its poor performance of a year ago. Our preliminary estimate for 1970 indicates a rate of growth of GNP of more than 6% compared with the unusually low rate of 2% in 1969. Much of the growth in 1970 is due to a bumper agricultural output reflecting favorable weather during the current crop season.

Although the short-run picture has brightened, we believe that the long-run outlook for the Soviet economy has not improved fundamentally. After decades of strenuous development, Soviet gross national product is only half as great as the American -- and only 43% of the US on a per capita basis. The long-run growth rate in industrial production will probably continue to slow down in spite of the 1970 increase. Finally, the published resource plans and output goals for Soviet agriculture for the period 1971-75 indicate that annual increases in farm output will continue to lag behind the ever increasing demands of the Soviet populace.

Soviet dissatisfaction with its long-run performance, and uncertainty as to how to proceed, is apparent in the fact that there is still no announcement of industrial targets for the Five-Year Plan to begin in less than 30 days. Indeed day-to-day reports from countries dealing with the USSR show the existence of conflicting recommendations among leaders on long-range plans.

SOVIET FOREIGN TRADE AND POLICY

S-3411

19 November 1970

SOVIET FOREIGN TRADE AND POLICY

A. General

Soviet foreign trade is conducted as a state monopoly by specialized foreign trade corporations. Foreign trade activities are designed and executed primarily to serve the needs of the Soviet economy. In this system, the role played by the state trading companies and the fact that foreign trade prices bear no systematic relation to domestic prices have served to insulate the Soviet economy from economic developments in the outside world.

The USSR traditionally pursued a policy of attaining maximum economic independence from the West. This policy has been tempered by the desire to draw on Western countries for advanced technology and industrial equipment. The goal of independence from the West has been basically achieved; the USSR is now largely a self-sufficient economic entity possessing vast and diverse resources, a well-developed industrial base, and a large internal market. In aggregative terms, foreign trade plays only a small role in the economy. Soviet foreign trade is small in comparison with the total value of goods and services produced in the Soviet

economy. Soviet exports in 1969 -- valued at \$11.7 billion -- accounted for roughly $2\frac{1}{2}$ percent of Soviet gross national product, compared with about 4 percent for the United States. Per capita exports of about \$50 are far below those of any other industrialized country. Exports of the Common Market countries, for example, exceed \$400 per capita -- more than eight times greater than those of the USSR.

Soviet planners design their policies to insure that most Soviet requirements for foreign goods are met from production within the Communist world. About two-thirds of Soviet foreign trade is conducted with other Communist countries, and most of this trade is with Eastern Europe. Trade is also one of the levers used by the USSR to maintain its hegemony over Eastern Europe.

The remaining one-third of Soviet foreign trade is divided roughly between the Industrial West -- two-thirds -- and the less developed countries -- one-third. The USSR traditionally has traded with the Industrial West primarily to obtain goods -- principally industrial goods including plant, equipment, and knowhow -- to raise the level of industrial technology and to achieve production goals more rapidly than Communist resources permit. Soviet trade with the less developed countries is an outgrowth of Soviet foreign policy to increase Soviet influence in these countries at the expense of the West.

B. Foreign Trade Developments

Over the past decade, Soviet foreign trade has grown at an annual rate of about 9 percent -- from a level of \$8.6 billion in 1958 to \$22.0 billion in 1969. Growth has been uneven, particularly in 1959 and the early 1960's when significant changes in trade with China occurred. During the period 1963-66 the pace of Soviet foreign trade growth slowed, and in 1965-66 it was only 4 percent annually, largely because trade with Eastern Europe increased only 2 percent for the two years. The growth rate of trade has increased since 1966, however, rising by an average annual rate of 9.5 percent in 1967-69, led by an increase of 10 percent annually with Eastern Europe.

About ten years ago the share of the Communist world in Soviet foreign trade was about three-fourths, but in recent years the Free World's share has risen to roughly one-third, largely as the result of the rapid growth in trade with the Industrial West. The decline in trade with China also was an important factor in the reduced share of the Communist world. Eastern Europe's share has not changed significantly over the decade, but such countries as Cuba and Yugoslavia have become more important in Soviet trade.

Soviet exports have been dominated by fuels, raw materials, and semifinished materials throughout the postwar period, but exports of machinery and equipment have increased significantly -- from \$800 million in 1958 to more than \$2.6 billion in 1969. Most Soviet exports of machinery and equipment have gone to Eastern Europe, and this area has accounted for most of the recent increase in these exports. Most of the remainder is destined for the less developed countries of the Free World. Since 1958, oil exports increased roughly two and a half times, reaching a value of \$1.4 billion in 1969; nevertheless, they did not significantly increase their share of total Soviet exports during this period. Throughout this period -- except for 1969 -- the growth in exports of oil has resulted from sharply increased exports to the Industrial West. In 1969, however, oil exports to the Industrial West fell an estimated \$15 million from a high of \$506 million in 1968. They remain, however, the largest commodity export to the West. In the last few years, diamonds and platinum group metals have emerged as an important export to the Industrial West, together earning an estimated \$250 million in 1969. Food exports have now regained their former importance after grain exports fell sharply in 1964-66. Grain exports valued at about \$500 million in 1969 represented an increase of more than \$275 million over the 1966 level. Thus, during 1967-69 the USSR has returned to its former role as a net exporter of grains, its export surplus

of 6.6 million tons in 1969 comparing very favorably with net imports of 4.2 million tons in 1966. Moreover, for the first time since 1963, the USSR was a net exporter of grains to the Industrial West with an export surplus of over 1 million tons in 1969.

Soviet imports for the past decade have featured machinery and equipment as well as consumer goods. Imports of machinery and equipment increased from \$1.1 billion in 1958 to \$3.9 billion in 1969. Until about 1967, three-fourths of these imports originated in Eastern Europe and the remainder in the Industrial West. Since then, however, the Industrial West has increased its share to about 30 percent. Imports of consumer goods, valued at about \$3 billion in 1969, have grown little in recent years because of a decline in food imports, particularly wheat since 1967. Manufactured consumer goods have figured more importantly in Soviet imports in the last few years, rising from \$1.1 billion in 1965 to \$1.9 billion in 1969. Most of these products originate in Eastern Europe, but the Industrial West provided substantial quantities since 1966.

USSR: Foreign Trade
Geographic Distribution
1960, 1965, 1967-69

Million US \$ a/

| | 1960 | | 1965 | | 1967 | | 1968 | | 1969 | |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Exports | Imports |
| Total | 5,564 | 5,628 | 8,175 | 8,058 | 9,652 | 8,537 | 10,634 | 9,410 | 11,655 | 10,327 |
| Communist Countries | 4,211 | 3,978 | 5,556 | 5,610 | 6,377 | 5,946 | 7,134 | 6,367 | 7,682 | 6,696 |
| Eastern Europe | 3,074 | 2,795 | 4,553 | 4,673 | 5,039 | 5,092 | 5,636 | 5,644 | 6,198 | 6,011 |
| Other | 1,137 | 1,183 | 1,004 | 937 | 1,338 | 853 | 1,498 | 723 | 1,484 | 685 |
| Free World | 1,352 | 1,650 | 2,618 | 2,448 | 3,275 | 2,591 | 3,500 | 3,043 | 3,973 | 3,631 |
| Developed West | 983 | 1,080 | 1,438 | 1,601 | 1,886 | 1,782 | 2,051 | 2,144 | 2,230 | 2,494 |
| Less Developed | 338 | 564 | 911 | 845 | 963 | 805 | 948 | 885 | 1,168 | 1,119 |
| Unspecified b/ | 31 | 6 | 270 | 2 | 426 | 4 | 501 | 14 | 576 | 17 |

a. Rounded to nearest million dollars.

b. Virtually all of this trade is conducted with the less developed countries but it is not specified by country of origin and destination.

SOVIET BUSINESS PRACTICES IN TRADE WITH THE WEST

The manner in which Soviet traders conduct business is in large part due to the fact that the Soviet foreign trade corporation is the solely authorized Soviet exporter or importer of a given group of commodities; it stands between the domestic producer/consumer and the foreign buyer/supplier. Foreign trade corporations, by their very character highly-centralized and subject to all the consequent disadvantages, only act for the final users or producers, and they depend on the latter's decisions on the relative merits of a foreign offer or bid received. Covering enormous sectors of the economy they can seldom offer their Western trading partners the speed and efficiency to which these are accustomed in dealings with other capitalist enterprises. The long gestation period of a considerable amount of business with the USSR is due not only to administrative delays but also, to factors inherent in the foreign trade system such as imports and exports having to follow the directives of the national economic and foreign trade plans and temporary, or not so temporary foreign exchange shortages.

The most demanding stage of the sales process is the actual negotiations. Soviet buyers insist on discussing the sale slowly and thoroughly and are wary of such open-end clauses as references to "usual commercial practice," etc. which are dangerously vague terminology where transactions between private firms and Soviet state agencies are involved. Some businessmen complain that negotiations are unduly protracted and costly and they are sometimes complicated by the refusal of all but the president of the foreign trade corporation to take individual responsibility on decisions. Experience has shown, however, that once a contract has been signed the Soviet trade agency may be expected to adhere closely to all provisions (and to make sure that its foreign trade partner does likewise). Also, punctiliousness may be said to be rewarded by punctual payment.

While a Western firm venturing into business contacts with the USSR has no choice of trading partner, its contact being limited to the particular trading corporation which specializes in the product it may wish to buy or sell, the state monopoly is often able to select its business partner and exploit to full advantage competition among private foreign competitors. There have been numerous examples of this in Soviet negotiations with Western suppliers of plants and equipment over years. Often when

technology is similar, the credit terms and/or price will determine the successful bidder. Or commercial considerations may be subordinated to political expediency, as pointed out below.

It is not only Ministry of Foreign Trade officials that potential Western suppliers may have to deal with. Suppliers may find that first contacts are with the Soviet State Committee for Science and Technology (SCST).. SCST has a policy-making and guiding function with respect to acquisition of foreign technology and development of industrial cooperation with Western firms and countries. In its current search for a Western firm or firms to supply the USSR with a truck plant, SCST officials have discussed the project with representatives of a number of potential suppliers -- Ford, Leyland, Daimler-Benz, Fiat and Renault. SCST officials also have met with officials of IBM, Siemens (West Germany) and ICL (UK) to discuss possible Soviet acquisition of Western computers and computer technology. If an agreement is concluded with the SCST, there is still the Ministry of Foreign Trade bureaucracy to contend with in ironing out contract details.

Because foreign trade is a monopoly of the state, commercial considerations may fall victim to political ones. It does not follow that all foreign trade decisions vis-a-vis the West flow from overall foreign policy. It does follow, however, that the

Soviet state can and does on occasion subordinate foreign trade activity to the imperatives of foreign policy. Postwar Soviet history is filled with examples -- cutting of deliveries to Finland in 1958 to influence Finnish domestic affairs; reneging on oil shipments to Israel during the 1956 Arab-Israeli war; stopping wool purchases from Australia after the Petrov affair, and a number of others. On the opposite side of the coin, when the USSR decided to cultivate favor with DeGaulle's France in the mid-60's the Soviet Foreign Trade Ministry threw a sizeable amount of business France's way and in addition, opted for France's SECAM color television technology instead of the more sophisticated US technology.

Generally speaking, however, the Industrial Western countries and large corporations are not vulnerable to political pressure. Their strong competitive position and diversified commercial relations militate against Soviet use of a threat to disrupt trade. Finland stands as an exception because it is highly dependent on Soviet trade.

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Soviet Effort Toward Acquisition of Technology

Five propositions

1. Why a Soviet dependence on Western technology 50 years after the advent of Marxism-Leninism.
2. Overwhelming concentration of the most able technological (engineering) talent on military production, deployment and control.
3. The surprisingly small spin-off from this concentration for non-military applications.
 - a. Little for space
 - b. Some in the nuclear power and CNE fields.
4. Soviet's are keenly aware of their technological inferiority outside of the military; indeed, as Khrushchev once did in his reference to "bury" the West, they may however threaten to blow you up if you notice their inferiority.
5. Soviet search for remedy of this condition is clumsy, poorly planned, poorly designed and poorly administered.

1. Basically the USSR without a price-market mechanism to guide production and investment has no acceptable internal means for evaluating new ideas or new techniques and no acceptable means to encourage innovation. It is reduced to the planned introduction of compulsory labor productivity factors which are more often achieved by accounting chicanery than the introduction of new production techniques. Major new technical changes even when developed in the USSR must wait until they are adopted in the West so that the USSR can identify their probable impact and implicitly their probable worth. Thus, although there are isolated areas in which Soviet technology vies with the West, the average lag in introduction of technology in the USSR viz a viz the Industrial West is around 10 years or more.

2. The weight of the Soviet bureaucracy consistently suppresses every effort to improve the use of new technology unless such change is both free (of economic cost) and unable to exert any near term change on any other sector of the economy. This "weight" is both cause and affect of Soviet technological lag. The bureaucracy itself is organized in such a way (research and development done by institutes rather than by production organizations) as to inhibit innovation. It stifles almost all reward for innovation on the part of workers and managers 1) by providing little or no monetary or public acclaim for innovators and 2) by suppressing or deferring the development or expansion of any innovation which may disturb

existing production relationships. Innovation is only permitted on a fully planned basis. Must be able to run before you walk. The result is to "put down" anything new outside of the military. If rapid change is a satisfactory definition of revolution, the USSR has to be one of the most reactionary regimes on Earth.

The military itself pays something of a price to the bureaucracy for its greater "technological freedom". It has been saddled with long production runs, even on weapons where the technology is very dynamic. But it exacts a price by being competitive in every reach of weapons system, offensive or defensive, land, sea or air.

The rate of technological development in weapons design and weapons production seldom lags the West by more than a few years and in some cases even leads the West. The development of atomic weapons and the use of atomic power on the one hand and the introduction of long-range ballistic missiles and ABM systems on the other are excellent examples.

3. The limited spin-off from military production for civilian production is in part a direct product of the governmental stranglehold over all economic activity. General purpose tools in military industries making early 1950 copies of Western consumer goods are not likely to produce either an attractive or an economic product. But the consumer votes only for the Communist party, not with his

rubles. The producer gets paid only for how many, not how good. He can only expect to get new tooling if it is needed for some military output. This restriction obtains until long-range plans can be changed even though new tooling might significantly reduce the cost of production.

Planning, Soviet style, rather than liberating the people has only succeeded in further suppressing them.

4. One may reasonably wonder, is the Soviet leadership aware of the technology gap? Indeed they are. The one proposition on which all ingredients of Soviet life -- the Communist Party, the economic planners, the industrial managers and the Soviet consumer agree is that Soviet industrial technology is far behind the general state of technological awareness. Moreover, if no one is watching or listening, that Soviet industrial technology is far behind that of any of the Western industrial nations. What they may differ on is whether to modify current practice with heavy emphasis on military technology for a more general innovative effort.

Occasionally, as Khrushchev once did, the Soviets will threaten "to bury" the West to cover their embarrassment over their general industrial achievements, and to emphasize the area in which their greatest achievement lies.

5. Soviet planners and industrial managers have repeatedly over recent years been given the go ahead by the Soviet leaders to import Western industrial technology to reduce this gap. Soviet efforts to implement such directions have been incredibly bumbling -- poorly planned, poorly designed and poorly administered. Their efforts to modernize their automotive industry and digital computer industry are cases in point. In each case the Soviet objective is defined in terms of output under one production facility which is so large that 1) there is no basis in production experience for the development of a single entity of this size, at least not as a "one pass" effort and 2) there is no prospect of effective demand for the planned output of the facility either in the USSR or its export market. Moreover, the USSR conceives of a joint Soviet-US business participation in which the US firm provides the investment resources as well as the technical skills, builds the facilities to Soviet specifications, and then is compensated by the export of components over which they have neither quality control nor control over the technical specifications. I submit this is as absurd for the Soviet people who must eventually pay for the domestic cost of such a facility as it is to the US firm which is asked to underwrite the capital costs of the venture.

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Soviet Economic Policies and
Programs in the Middle East

I. Soviet Policy Objectives

1. Soviet policy in the Middle East is an extension of its overall policy toward the Third World -- the expansion of Soviet influence. Although this goal has been a traditional one for Moscow, the Soviet leadership during the past 15 years has employed sharply different tactics in its pursuit. In contrast to the previous Soviet efforts to foster local Communist parties in order to hasten Communist takeovers, the post-Stalin regimes have sought to cultivate good relations with the legitimate governments of these countries with the customary instruments of contemporary statecraft. It was Moscow's hope that if it could establish sufficient influence in newly emerging countries, it could manipulate their strong neutralist and anti-Western sentiments to erode Western ^{influence and substitute its own. The most} important foreign policy tools employed in this endeavor have been economic and military aid.

2. The Middle East was particularly ripe for Moscow's new aid diplomacy in the mid-1950's. The conflict and passions generated by the Arab-Israeli conflict sharply aggravated existent anti-Western feelings and created a highly receptive atmosphere for the intrusion of the USSR. In September 1955, the Soviet Union, using Czechoslovakia as a front, concluded an arms agreement with Egypt. This

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agreement was followed quickly by arms pacts with Syria, Yemen, and eventually, Iraq. These arms agreements, hailed widely in the Arab world as a blow to colonialism, negated the Western embargo on arms shipments to the Middle East, enabled the Soviet Union to leapfrog over the newly created Baghdad Pact, opened the area to the growth of Soviet influence, and generally exacerbated the political turmoil obtaining in the Middle East. Soviet military aid quickly established a donor-donee rapport which created a basis for expanding other political and economic ties with the USSR. In all cases, economic aid agreements followed soon after the military agreements. In time, the Soviet Union became the primary ^{foreign source of economic aid to its military} clients in the Middle East. It also has become an important trading partner for some of the countries in the area.

II. Economic Aid Programs

A. Magnitude and Character of Aid

3. The USSR has extended some \$2.7 billion of economic aid to Middle Eastern countries since the beginning of its aid program in 1954. These commitments, the largest provided any area in the Third World, account for about 40% of all Soviet economic aid extended during the past 16 years (See Appendix Table A and Graphic 1). Egypt ranks second (after India) among all the less developed countries (LDC) as a recipient of Soviet aid. Egypt, which has received Soviet commitments of more than \$1 billion, also is by far the largest recipient of Soviet assistance among the countries of the Middle East.

Iran and Turkey rank second and third, with total commitments of \$560 million and \$375 million, respectively. They are followed by Iraq, with \$330 million, and Syria, Yemen, and Greece, which together have received about \$400 million.

4. As has been typical of Soviet aid to most of the LDC's, the largest share of the aid extended to Middle Eastern countries has been allocated to heavy industrial use. This category, accounting for at least 45% of all aid provided to the Middle East, includes industrial complexes such as the Helwan steel mill in Egypt, steel mills in Turkey and Iran, and aluminum plants in Egypt and Turkey. Aid allocations for large scale dams, irrigation, and hydroelectric power comprise about 20% of the total and include: the Aswan Dam in Egypt, the largest Soviet aided project ever undertaken; the Euphrates Dam in Syria, for which the Soviets are providing more than \$130 million; and the Aras Dam on the border between Iran and the USSR, which will provide equal irrigation and power facilities for both countries. Oil development credits, which have been rising as a share of total aid extended in recent years, comprise about 10% of the total extended to the Middle East. Aid for oil development in Egypt, Iraq, and Syria has enabled these countries to establish state-controlled oil companies.

B. Pattern of the Khrushchev Years, 1954-64

5. Soviet arms aid was followed by a series of economic aid agreements which during the first five years added up to more than

\$800 million to Egypt, Iraq, Syria, and Yemen. But even more important than the dollar magnitudes of these early agreements was the projects for which the USSR provided aid. The agreement in 1958 to build the Aswan Dam, and the subsequent allocation of some \$325 million for its construction, gave the USSR a propaganda advantage that far outweighed the costs of its effort. Moscow also extended \$175 million industrialization credit to Egypt which was used for the latter's First Five-Year Plan (1 July 1960-30 June 1965). This aid was used for construction in the public sector of 32 metallurgical, engineering, petroleum and chemical projects and a variety of light industrial projects. It enabled extensive Soviet participation in Egypt's industrial development plans, particularly in mineral and petroleum resource development and metal manufactures. Soviet aid to Iraq, while less dramatic in size and the character of its undertakings, provided assistance for light industrial and engineering plants, for a railroad from Baghdad to the port at Basra, an agricultural machinery factory and a pharmaceutical plant. Under credits extended in 1957, Syria benefited from railroad and dam construction and

geological prospecting and oil exploration. During this early period economic aid to Yemen helped it improve port facilities and to build an airfield.

4. Following several lack lustre years, ^{the} Khrushchev in 1964 promised a half a billion dollars of additional aid to Egypt and over \$70 million to Yemen. These commitments were to mark the end of the ^{the} Khrushchev era in Soviet aid when large umbrella-type credits* were available almost for the asking.

C. The Post-Khrushchev Era in Aid.

5. The year 1965 was the beginning of a new style in Soviet aid undertakings, a more conservative style that was to be highly selective of its clients and the projects that it sponsored.

Though the long run objectives had not changed, more and more the aid program was to reflect a careful Soviet appraisal of the political and economic returns on its investment. As a consequence, in recent years assistance has been concentrated in fewer countries, countries which from the Soviet view will provide it with needed raw materials or countries which Moscow considers to be of strategic importance to its ^{political} interests. To ensure the most effective use of Soviet aid resources, its aid program has become much more highly targeted than it was a decade ago, as ^{the} Khrushchev's successors apply location criteria to their aid determinations more systematically than before. These stricter criteria are particularly consistent

* Lines of credit which were not allocated to specific project use at the time of their extension.

with Soviet economic and political interests in the Arab World, and their application will help to reinforce the Russian foothold in the ~~Near~~^{Middle} East. They reflect also the Soviets growing concern with China and the need to strengthen relationships with the countries along the southern borders of the USSR. As a consequence the ~~Near~~^{Middle} Eastern countries continue to be among the most favored aid clients.

6. The emergence of Iran and Turkey in 1966 as major aid recipients is one of the most significant developments in the Soviet aid program in recent years because it marks the entry of the USSR into a previously almost completely Western aid preserve. These two Central Treaty Organization countries had received \$2.5 billion of American aid in the 11 years prior to 1966 (See Appendix Table B). The Soviet agreements with Iran and Turkey undoubtedly were viewed as a major triumph by Moscow. Although the Soviets had provided minor credits to Turkey previously and a \$39 million credit to Iran in 1963 for building a joint dam and hydropower project on the Soviet-Iranian border, the 1966 credits of \$289 million to Iran and \$200 million to Turkey marked the start of active Soviet participation in developing public sector industries in these countries. They provided the last links in a chain of countries that were important Soviet aid recipients with borders

contiguous to the Soviet Union or to Communist China*. These agreements were intended to lay the foundations for enduring economic relationships with Iran and Turkey while they significantly reduced the economic dependence of these countries on the West. The pipeline for transporting natural gas from Iran to the Soviet border -- for which the USSR allocated about \$80 million of credits from its 1966 line of credit -- will be of particular importance in cementing economic relations between Iran and the USSR. The \$1 billion in earnings from gas sales to the USSR over the next 15 years will more than cover Iran's debt obligations to the USSR for both economic and military aid, allowing Iran to capitalize on a former waste product. At the same time the USSR will benefit from the import of this gas at the relatively low price of \$6.60 per 1000 cubic meters. The supply of some 10 billion cubic meters of gas annually by 1974 will allow the USSR to supplement the dwindling gas supplies in the Azerbaydzhan SSR and to save distribution costs of bringing it into the area from distant Soviet fields in Central Asia.

7. In 1968 the USSR increased its original commitment of \$289 million to Iran by \$178 million. In addition to the pipeline, these credits are being used to build a steel mill in Isfahan, a machine building plant, and a zinc refinery, and to reconstruct a

* The chain also includes the following countries of South Asia: Afghanistan, Pakistan, India and Nepal.

railroad from the Soviet border to a new industrial center at Tabriz. The initial commitment of \$200 million of Soviet aid to Turkey under the 1966 agreement was raised to \$366 million in 1969. This aid provides for assistance to 5 public sector projects, most important of which are: a steel works, an aluminum plant and an oil refinery.

8. As in the case of the Iranian-Soviet pipeline, in recent years the USSR has provided assistance more and more for projects that are of mutual economic benefit to itself ^{as well as} and to the recipient country. The output from aided projects for bauxite mining in Guinea, zinc smelters in Egypt, Iran and Bolivia, and for oil exploration and exploitation in Egypt, Algeria, Syria and Iraq (and possibly in Iran) will help the USSR to satisfy its own domestic requirements. The USSR also profits from the assistance it has extended to Egypt, Iraq and Yemen for developing their fishing industries whose facilities will be made available to the far flung Soviet fishing fleet. The Soviet-aided shipyard at Alexandria provides repair facilities for Soviet vessels and is building several commercial ships for the USSR.

9. Of particular significance is Russia's assistance to ^{Middle} ~~Near~~ Eastern oil development for which the USSR has provided some \$240 million of credits. While helping to establish national oil companies in these countries and reducing their dependence on

Western companies, the Soviets undoubtedly are looking to the 80's when they may need to supplement domestic crude oil supplies to meet their requirements. The \$120 million of credits extended to Iraq last year for the purchase of oil drilling equipment will be repaid in crude oil. This is of special note because it is the first time that a Soviet-Iraqi economic aid agreement has provided for repayment in commodities, rather than in hard currency.

III. Soviet Trade with ^{Middle} Near Eastern Countries

10. Soviet trade with ^{Middle} Near Eastern countries also demonstrates more and more the Soviet interest in taking particular commodities that are important to its economy or to other Communist countries.. In 1969 the USSR took \$15 million of Egypt's petroleum for shipment ^{Bulgaria and} to Cuba. It took 71% of Syria's wool exports, 50% of Egypt's cotton and 24% of Turkey's raisins. Over the past decade Soviet trade with ^{Middle} Near Eastern countries has increased at a faster rate than its trade with the Third World as a whole. Its trade with the ^{Middle} Near East also has grown more rapidly than with the developed West. (See Appendix Table C). Similarly, the USSR preempted an increasingly large share of the total trade of major ^{Middle} Near Eastern recipients of Soviet aid as their trade with the USSR expanded faster than with the rest of the world. For example, between 1960 and 1968:

Egypt's total trade rose by 4%, its trade with the USSR rose 93%;
Syria's total trade rose by 32%; its trade with the USSR rose 232%;
Iraq's total trade rose by 39%, its trade with the USSR rose 139%;
Iran's total trade rose by 124%, its trade with the USSR rose 246%;
Turkey's total trade rose by 61%, its trade with the USSR rose 369%.

11. For some of these countries, the USSR has become their principal market. This is particularly true for Egypt. In 1968 the USSR accounted for 27% of Egypt's total exports. It also took 11% of Syria's total exports, 11% of Yemen's and 6% of Turkey's.

12. Though it is not possible to estimate exactly how much of the increase in trade between the Soviet Union and these Near Middle Eastern countries is attributable directly to the aid program, the direct contribution of aid to trade appears to be relatively small. Estimated Soviet aid deliveries* comprised a small part of total Soviet exports to these countries both in 1960 and 1968, as is shown in the comparisons below:

* Based on Soviet trade data for complete plants.

Middle
Soviet Exports to Selected ~~Near~~ Eastern Countries

Million US\$

| | 1960 | | 1968 | |
|--------|-------|----------------|-------|----------------|
| | Total | Aid Deliveries | Total | Aid Deliveries |
| Iraq | 20 | 4 | 51 | 5 |
| Iran | 18 | 0 | 88 | 37 |
| Syria | 11 | 2 | 42 | 17 |
| Egypt | 70 | 16 | 198 | 67 |
| Yemen | 4 | 2 | 6 | 2 |
| Turkey | 8 | 4 | 31 | 4 |

13. Soviet imports from these countries also reflect repayments in commodities for aid (both military and economic) delivered in the past and on which repayments of principal and interest are due. The volume of repayments has been growing, especially for Egypt, but they have not yet accounted for a sizeable share of Soviet imports from these countries. They probably represent no more than 20% of the total increase in Soviet imports from the ^{Middle}~~Near~~ East between 1960-68.

14. Beyond trade that has been generated directly by this aid program, there are, of course, indirect but aid related factors that lead to its expansion. These, however, cannot be measured. Spare parts are the most obvious but commercial orders undoubtedly

have been expanded after inhibitions to the purchase of Soviet equipment were dispelled following use of aid equipment. Soviet imports from these countries also have grown somewhat as a result of Soviet agreements to take goods from Soviet aided plants whose capacity may exceed local requirements.

Assessment

15. No one will dispute the fact that Soviet influence in the ^{Middle} ~~Near~~ East has increased dramatically over the past 15 years, while that of the West has declined. It is also true that Soviet economic programs have had an important political impact. Although economic aid (and certainly military aid) has contributed to the growth of Soviet influence in the ^{Middle} ~~Near~~ East, it is not possible to measure the amount that aid has contributed to Soviet penetration.

16. In spite of Soviet aid failures on some projects, typical for all aid programs, on balance, ^{Middle} ~~Near~~ Eastern countries undoubtedly would rate Soviet aid a success. So would Moscow. For many of these countries, Soviet aid has been the only major industrial assistance they have received during the past decade. Even in Turkey and Iran this generalization applies since the mid-60's. For most of these countries Soviet aid will contribute significantly to the growth of industrial and in Syria and the UAR to agricultural output. For example: the Aswan Dam not only will double the output of electric

power in ^{Egypt} the UAR and thus support additional industrial expansion, it also will result in a 40-50% increase in gross agricultural output. The Euphrates Dam in Syria is expected to increase cultivable land by 1.5 million acres and to add \$185 million to Syria's national income. and The steel mill in Iran, its first, is now scheduled to produce 1.5 million tons of steel and may be expanded to 4 million tons later. These kinds of projects tend to create more lasting ties and bring more credit to the donor than the equivalent aid being provided as food or for local small industrial or agricultural projects by Western nations. The United States has provided about \$4.7 billion of aid to these countries during 1954-69, almost half of which was committed to Turkey. But annual commitments declined markedly in the early 60's and in recent years are confined largely to PL-480 assistance to Iran and Turkey.

17. Meanwhile the Soviets continue to inject men and materials into the ^{Middle} Near East to cement its ties. The flow of technicians which has equalled as many as 5000 economic technicians in a year has provided a cultural interchange. In addition, the 5000 ^{Middle} Near East Nationals that have received technical training in the USSR and approximately the same number of aid the academic students that have gone there help to strengthen the bonds of understanding between the Soviets and

Middle
Near Eastern countries. The resulting familiarity with the Soviet institutional structure and the personal links between the USSR and the foreign nationals often enhance the Soviet image and produce lasting relationships.

Appendix Table A
Soviet Economic Credits and Grants Extended to Less
Developed Countries and to Middle Eastern Countries
1954-70

| | Millions US \$ | | | | | | | | | |
|-------------------------------------|----------------|-------------|-------------|------------|-------------|------------|------------|------------|------------|--|
| | 1954-70 | 1954-60 | 1961-64 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970* | |
| <u>Total Aid: of which</u> | <u>6970</u> | <u>2389</u> | <u>1620</u> | <u>452</u> | <u>1260</u> | <u>268</u> | <u>374</u> | <u>462</u> | <u>145</u> | |
| <u>Aid to Middle East</u> | <u>2688</u> | <u>823</u> | <u>615</u> | <u>84</u> | <u>622</u> | <u>0</u> | <u>178</u> | <u>287</u> | <u>79</u> | |
| Greece** | 84 | | | 84 | | | | | | |
| Iran | 562 | | 41 | | 289 | | 178 | | 54 | |
| Iraq | 330 | 183 | 1 | | | | | 121 | 25 | |
| Syria | 233 | 100 | | | 133 | | | | | |
| Turkey | 376 | 10 | | | 200 | | | | | |
| UAR | 1011 | 510 | 501 | | | | | | | |
| Yemen | 92 | 20 | 72 | | | | | | | |
| Aid to Middle East as % of Total | (39%) | (34%) | (38%) | (19%) | (49%) | (0) | (48%) | (62%) | (54%) | |

* 1 January - 15 November.
** Assistance in the form of deferred payment for ships extended to a private company. Few have been delivered.

Appendix Table B

United States Economic Credits and Grants Extended
to Middle East Countries*, FY 1954-FY 1969

| | Million US \$ | | | | | | | | | |
|-------------------|------------------|----------------|----------------|--------------|--------------|--------------|--------------|-------------|--|--|
| | Total 1954-69 | 1954-60 | 1961-64 | 1965 | 1966 | 1967 | 1968 | 1969 | | |
| <u>Near East*</u> | <u>4,745.5</u> | <u>1,930.5</u> | <u>1,779.1</u> | <u>368.0</u> | <u>212.9</u> | <u>248.8</u> | <u>197.8</u> | <u>98.4</u> | | |
| Greece | 543.8 | 353.2 | 161.8 | 27.1 | -0.7 | 1.7 | 0.7 | - | | |
| Iran | 933.6 | 476.2 | 241.2 | 41.1 | 20.6 | 105.9 | 41.1 | 7.5 | | |
| Iraq | 51.8 | 15.8 | 24.0 | 3.8 | 5.2 | 2.7 | - | 0.3 | | |
| Syria | 59.9 | 13.6 | 57.2 | 0.8 | 0.4 | -11.7 | -0.7 | 0.3 | | |
| Turkey | 2,220.4 | 821.8 | 735.2 | 191.6 | 159.6 | 151.6 | 70.0 | 90.6 | | |
| UAR | 893.2 | 239.2 | 536.0 | 98.8 | 25.1 | -3.5 | -2.1 | -0.3 | | |
| Yemen | 42.8 | 10.7 | 23.7 | 4.8 | 2.7 | 2.1 | -1.2 | - | | |

* Includes only those countries receiving aid from the USSR.

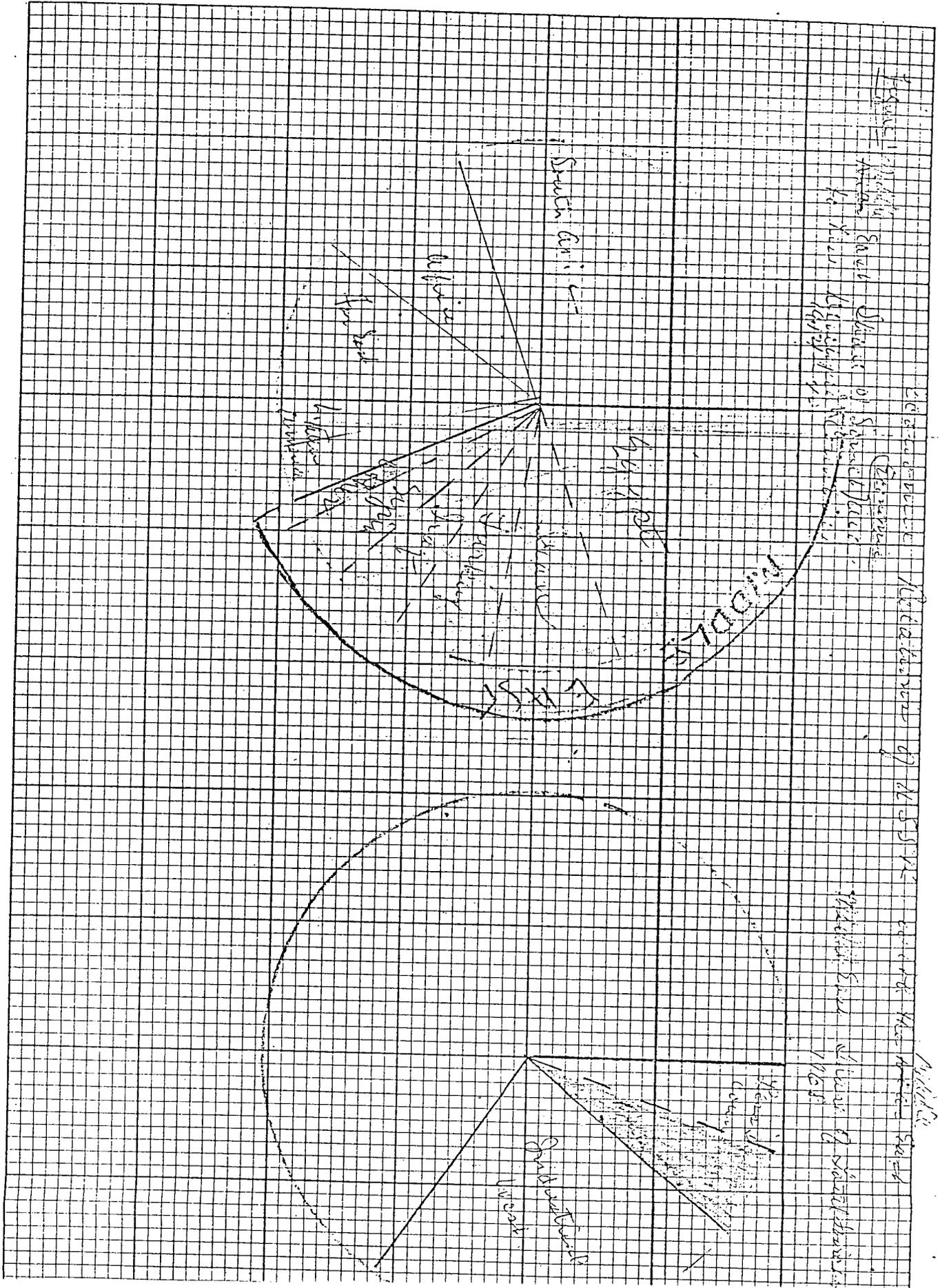
Appendix Table C

Soviet Trade with Major Country Groupings and the Middle East
1960, 1965, and 1969

| | 1960 | | 1965 | | 1969 | |
|---------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| | Exports | Imports | Exports | Imports | Exports | Imports |
| Total Soviet Trade | <u>5564</u> | <u>5628</u> | <u>8175</u> | <u>8058</u> | <u>11655</u> | <u>10327</u> |
| With Developed West | <u>983</u> | <u>1080</u> | <u>1438</u> | <u>1601</u> | <u>2230</u> | <u>2494</u> |
| With IDC's | <u>338</u> | <u>564</u> | <u>911</u> | <u>845</u> | <u>1168</u> | <u>1119</u> |
| of which: | <u>164</u> | <u>182</u> | <u>355</u> | <u>258</u> | <u>670</u> | <u>397</u> |
| Near East | 26 | 19 | 37 | 28 | 29 | 29 |
| Greece | 20 | 3 | 30 | 4 | 68 | 5 |
| Iraq | 18 | 19 | 15 | 18 | 162 | 56 |
| Iran | 11 | 8 | 13 | 19 | 48 | 37 |
| Syria | 8 | 5 | 17 | 19 | 58 | 30 |
| Turkey | 70 | 121 | 209 | 163 | 238 | 228 |
| UAR | 4 | 1 | 8 | 1 | 10 | 1 |
| Yemen | 7 | 5 | 26 | 6 | 57 | 11 |
| Others | <u>4243</u> | <u>3984</u> | <u>5826</u> | <u>5612</u> | <u>8256</u> | <u>6714</u> |
| All other* | | | | | | |

* Mostly with Communist countries.

Million US \$



V. Soviet Activities in Middle East Oil

The USSR, now the second largest oil producer in the world after the US, has abundant resources in petroleum that could make it the world's leading producer by the end of the century. However, a sizable share of these resources are in regions where exploitation will be difficult and costly. Moreover, the Soviets have followed poor extraction practices in presently exploited fields while they have been slow in developing the technology they will need to exploit the remote new fields in Northern Siberia.

The Soviets can cope with these difficulties, but only with a major effort. Through the mid-1970's Soviet oil production probably will be adequate to provide for domestic needs, the bulk of Eastern European oil demand, and continuation of exports to other Communist countries and the Free World. We expect the USSR's oil surplus will diminish in the late 1970's, so that if the Soviets want to maintain or expand their exports they will probably have to offset these increasingly through imports from the Free World. Indeed, they may become net importers from the Free World toward the end of this decade unless a major effort is undertaken to improve the technology of crude oil production in the near future.

We do not expect that the Soviets will allow a situation to develop in which their oil imports would constitute more than a small fraction of total Soviet demand. By the same token such imports, which presumably would come from Arab oil producers, would represent at most, only a very small fraction of total

production of Middle East oil.

The USSR now has agreements with Iraq, Syria, and Egypt whereby Soviet assistance in developing oil resources is to be repaid in oil. Some moderate expansion of such Soviet support to the emerging national oil companies can be expected. This assistance enables the USSR to acquire supplemental supplies of oil while providing a market for Soviet goods and services not otherwise readily exportable.

The quantities of oil thus acquired by the USSR will be necessarily limited by Soviet determination not to become heavily dependent on external sources for so vital a commodity as oil.

Moreover, there is a limit to the Soviet goods and services that the Arab states would be willing to accept for oil that would earn convertible foreign exchange if sold to other customers.

There are other considerations that will limit the role of the USSR in Middle East oil matters. The governments of the oil states take strongly nationalistic attitudes toward their mineral wealth and would resist giving the USSR a dominant role in exploiting this wealth. Moreover, Soviet petroleum technology is not sufficiently advanced to stimulate the interest of Middle East countries in large-scale Soviet assistance. Finally, the oil states need the large marketing organizations of Free World oil companies to sell their vast quantities of petroleum and only the Free World has the necessary tankers to move the oil to distant markets.

Nor does the expanded Soviet political influence in the Middle East mean that the USSR would move to deny Middle East oil to the West, even if it were in a position to do so. Denial on a small scale, (one country-supplier or part of a country) would not disrupt essential industry in the West and would be costly to the USSR in terms of international good will. Western countries would view such denial as an act of economic warfare and probably would retaliate in kind.

Denial on a large scale seems even more remote. The USSR probably could not persuade the Arab oil producers acting in concert to withhold their oil and forego the revenues so vital to their economies. Furthermore, the USSR would not be financially able to compensate the Arab states for the revenues foregone.

The USSR may, in fact, not want to upset the status quo in world oil activities. Soviet commercial interests probably coincide with those of the Arabs and of the oil consumers in dictating stability in international oil markets. Soviet as well as Arab exporters benefit from open markets and high prices. The USSR's pragmatism in business practices has been demonstrated by their cooperation with Western oil companies in arranging oil exchange deals (swaps). These swaps were inaugurated by the USSR and Western oil companies in late 1967 in the face of higher transport costs arising from the Suez Canal closure. Under this arrangement, Western oil companies provide oil to the USSR at Persian Gulf sources for delivery to

markets east of Suez. In exchange, the USSR provides oil to the oil companies at Black Sea ports for delivery to their markets in Europe.

Soviet Exports of Petroleum
(Selected Years)

Million Metric Tons

| | 1960 | 1965 | 1967 | 1968 | 1969 |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Total | <u>33.2</u> | <u>64.4</u> | <u>79.0</u> | <u>86.2</u> | <u>86.3</u> |
| Free World | <u>18.0</u> | <u>35.5</u> | <u>43.7</u> | <u>44.7</u> | <u>41.8</u> |
| Middle East | 0.3 | 1.0 | 1.4 | 1.4 | 1.9 |
| Other | 17.7 | 34.5 | 42.3 | 43.3 | 39.9 |
| Communist Countries | <u>15.2</u> | <u>28.9</u> | <u>35.3</u> | <u>41.5</u> | <u>44.5</u> |
| Eastern Europe | 9.2 | 22.4 | 27.7 | 32.4 | 35.4 |
| Others | 6.0 | 6.5 | 7.6 | 9.1 | 9.1 |

| Soviet oil exports as percent of World demand (ex- cluding US) | 5.6 | 6.5 | 6.8 | 6.7 | 6.0 |
|---|-----|-----|-----|-----|-----|
|---|-----|-----|-----|-----|-----|

MEMORANDUM FOR:

13 November 1970

J. H. M. G.
J. H. M. G.

Director, Office of Economic Research

Subject: Material for DCI Speech

1. DCI has been asked to speak to the Business Council on 3 December on "Russian Business Practices, and Influence in the Middle East." He has asked me to prepare a 20-minute text for him.

2. He wants to set the stage with a few brief paragraphs on the gross threat, the balance of forces, and the state of the Soviet economy, and then devote a substantial chunk to Soviet trade, aid, acquisition of technology, ---trade practices, policies, objectives, in other words. To what extent is trade used in support of general Soviet policy, to what extent is it affected by Soviet policy? Soviet experience and policy in grants/loans? Finally, what is the Soviet Union up to in the Middle East, what is their trade position there, do they need or want the oil, what would they do if they did control it, etc?

3. I can put together the gross threat, balance of forces, and the general objectives in the Middle East, but could you and your colleagues please furnish the raw material for the rest? I say raw material because I can use whatever is easiest for you---completed memos, notes, rough drafts, what have you. Even a batch of papers with a skeleton outline of how they should fit together for the speech.

4. To give me the necessary time to work it into a speech text, could I have the material on or about Nov. 20, for instance, or Monday Nov. 23 if the weekend helps?

Tha

H. G. D.

Sh

"

MATERIAL FOR DCI SPEECH

"Russian Business Practices, and Influence in
the Middle East"

Soviet Activities and Middle East Oil

18 November 1970

Analysts:

Soviet Activities and Middle East Oil

The USSR has abundant potential resources of petroleum, both onshore and offshore, that could make it the world's leading producer of petroleum by the end of this century. However, a sizable share of these resources are in regions where exploitation will be difficult and costly.

The USSR is now the second largest oil producer in the world (after the US). In the years through the mid-1970's, Soviet oil production probably will be adequate to provide for all domestic needs, satisfy Eastern European demand for Soviet oil, and permit substantial exports to other Communist countries and to the Free World.

If, as is expected, the USSR continues to supply the lion's share of Eastern Europe's oil needs and to maintain the recent level of oil exports to the Free World, the USSR by the end of this decade may need marginal quantities of oil from the Free World, presumably the Arab oil states. These requirements probably would represent something less than 10% of Arab oil production forecast for 1980 and only a small part of total Soviet demand. In the years following, the Soviet (and Eastern Europe's) needs for Free World oil will depend on the success of the USSR's investment program in its own oil industry and further technological advances. Both of these factors are impossible to predict at this time.

The USSR now has agreements with Iraq, Syria, and Egypt whereby Soviet assistance in developing oil resources is to be repaid in oil. Some moderate expansion of such Soviet support to the emerging national oil companies can be expected. This assistance enables the USSR to acquire supplemental supplies of oil while providing a market for Soviet goods and services not otherwise readily exportable.

The quantities of oil thus acquired by the USSR will be necessarily limited by Soviet determination not to become heavily dependent on external sources for so vital a commodity as oil. Moreover, there is a limit to the Soviet goods and services that the Arab states would be willing to accept for oil that would earn convertible foreign exchange if sold to other customers.

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oil to the USSR at Persian Gulf sources for delivery to Soviet markets east of Suez. In exchange, the USSR provides oil to the oil companies at Black Sea ports for delivery to their markets in Europe.

Soviet Exports of Petroleum
For Selected Years

| | Million Metric Tons | | | | |
|--|---------------------|-------------|-------------|-------------|--------------|
| | <u>1960</u> | <u>1965</u> | <u>1967</u> | <u>1968</u> | <u>1969*</u> |
| Total | 33.2 | 64.4 | 79.0 | 86.2 | 86.3 |
| Free World Of Which: | 18.0 | 35.5 | 43.7 | 44.7 | 41.8 |
| Middle East | 0.3 | 1.0 | 1.4 | 1.4 | 1.9 |
| Communist Countries Of Which: | 15.2 | 28.9 | 35.4 | 41.5 | 44.5 |
| Eastern Europe | 9.2 | 22.4 | 27.7 | 32.4 | 35.4 |
| Soviet oil exports as percent of World demand excluding US | 5.6 | 6.5 | 6.8 | 6.7 | 6.0 |

* preliminary