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Communist Aid To Less Developed Countries Of the Free World, 1977

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Communist Aid to Less Developed Countries of the Free World, 1977

*Central Intelligence Agency
National Foreign Assessment Center*

November 1978

Key Judgments

The USSR reinforced its Third World connections in 1977 with military sales agreements of near-record size and economic pacts that seemed to ensure long-term Soviet involvement in several key less developed countries. Moscow once again focused on military aid as its most effective means of building up influence in the Third World. At the same time, the USSR expanded economic and technical cooperation with LDCs in order to consolidate political gains and to assure markets and raw material supplies for various branches of Soviet industry.

Despite Moscow's apparent preoccupation with sub-Saharan Africa—where its Cuban surrogates played an increasingly important role—three-fifths of the \$4 billion military commitment in 1977 went to support radical Arab regimes, Moscow's traditional arms clients.

Moscow's most decisive supply action was in the Horn of Africa. Following political decisions made in 1976, the USSR shifted its alliance from Somalia to Ethiopia in an arms buildup unprecedented in size or character in the sub-Sahara. Meanwhile, the USSR gave more active support to African insurgent groups through new and heavier assistance. The 21,000 Cuban military personnel in black Africa at yearend (almost twice the number at yearend 1976) were further testimony of Moscow's heightened interest in the area.

The record \$3.3 billion in Soviet military deliveries in 1977 featured a larger proportion of advanced weapons systems and naval craft. Egypt's ongoing peace initiatives toward Israel provided Moscow further opportunities to cement relations with Algeria, Libya, and Syria—members of the "Steadfastness Front" opposing accommodation with Israel.

In 1977, the USSR and East European countries signed 19 economic framework agreements with LDCs, the majority to be implemented over 10 to 15 years. The amount and kind of assistance for specific projects and the



terms of repayment are to be negotiated separately. They may include conditions ranging from straight commercial transactions to liberal long-term provision of aid. The agreements shift the burden for formulating viable new projects to the developing country.

The USSR hopes by these economic aid agreements to quiet growing Third World discontent with the level and character of Soviet assistance. Moscow also expects return benefits, mainly in the form of (a) establishment of markets for Soviet goods and (b) securing new sources of foodstuffs and industrial raw materials such as bauxite, iron ore, and phosphates. East European countries are particularly interested in concluding agreements with the LDCs that will provide future oil supplies, since their increased needs almost certainly will not be met by the USSR.

In 1977, Communist economic aid commitments fell to their lowest point in nearly a decade—only \$875 million in new credits. The most precipitous drop was in the Soviet program, as Moscow pledged less than \$400 million of aid, mostly to India. The decline in the value of new aid extensions, however, should not be interpreted as a switch in policy since aid deliveries were 5 percent higher in 1977.

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Communist Aid to Less Developed Countries of the Free World, 1977

The Military Aid Program in 1977

A Near-Record Year

Large sales to traditional clients and massive support to Ethiopia pushed Communist arms sales to LDCs to a near-record \$4.2 billion in 1977 and arms deliveries to a peak \$3.6 billion (see table 1). Only in 1974, when Moscow was restocking Middle East inventories, were military sales higher. Transactions in 1977 raised total Communist sales to LDCs since the mid-1950s to almost \$30 billion. In 1977, as in previous years, the USSR accounted for the lion's share of the Communist program (95 percent of sales and 91 percent of deliveries), and Moscow continued as the second-ranking LDC arms supplier, after the United States. East European countries and the People's Republic of China contributed only \$220 million in new agreements.

Little Change in Client Pattern

A few large arms sales dominated the Soviet military aid picture again in 1977, with five

clients—Syria, Algeria, Ethiopia, India, and Libya—accounting for almost 90 percent of the sales. The Soviet commitment to furnish \$2 billion of arms to Algeria, Libya, and Syria bolstered the hard-line stance of these countries against Egyptian peace initiatives. The USSR's sales of modern weaponry to these radical Arab clients have been motivated by political considerations; the substantial hard currency earnings from the sales are a highly attractive secondary consideration. In 1977 the USSR broke the Western arms supply monopoly in the conservative Persian Gulf states with a \$50 million cash sale of missiles and rockets to Kuwait.

Arab States: Economic as well as Political Payoff to the USSR

The Soviets made few known financial concessions to large clients last year, either in pricing arrangements or repayment terms. In all, the Soviets will gain perhaps \$1.5 billion in hard currency from 1977 arms sales. These earnings come at a particularly opportune time—following the large hard currency trade deficits of

Table 1

Communist Military Relations with LDCs¹

	Million US \$							
	Agreements				Deliveries			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total ¹	29,280	26,050	2,420	810	23,865	21,035	2,130	700
1954-67	6,025	5,045	755	225	4,910	4,080	680	150
1968	535	450	60	25	595	505	65	25
1969	485	360	125	5	555	450	80	25
1970	1,265	1,150	50	65	1,105	995	80	30
1971	1,790	1,590	120	80	1,045	865	120	60
1972	1,865	1,635	150	80	1,360	1,215	70	75
1973	2,965	2,810	130	25	3,330	3,130	120	80
1974	4,690	4,125	480	85	2,485	2,315	150	25
1975	2,260	2,010	215	40	2,090	1,775	230	85
1976	3,195	2,890	160	145	2,815	2,445	290	80
1977	4,205	3,990	180	40	3,570	3,265	240	65

¹ Because of rounding, components may not add to the totals shown.

1978 2,320 1,765 465 90 4,205 3,825 325 55

29655
4205

3265
240

1975-76—and reduce pressures on the USSR to cut back imports of badly needed equipment, grain, and semimanufactures from the West.

The Soviet-Syrian relationship, which had deteriorated in 1976 during the Lebanese crisis, was rekindled last year with new military agreements. Iraq followed its \$1 billion 1976 order with purchases of long-range jet transport aircraft (IL-76s) never before exported by the USSR.

Algeria plans to modernize its inventories further with the squadron of MIG-23 fighters that Moscow is providing under the 1977 agreement. It will use the additional tanks and combat vehicles to reorganize its ground forces into mobile units better suited to desert warfare.

African Clients: Political Considerations Paramount

The Soviet venture into Ethiopia was frankly political. Rising international criticism did not deter Moscow's continuing sub-Saharan offensive, for which military agreements in 1977 soared to \$850 million, triple the 1975 level (the year of the Angolan insurgency). The record-setting transactions represent the largest Soviet commitment ever made to black Africa and reflect a major shift in Soviet policy in the Horn of Africa. Soviet agreements for equipping Ethiopia with modern weapons was accompanied by (a) Moscow's refusal to ship offensive weapons to Somalia, (b) Mogadiscio's abrogation of the 1974 Somali-Soviet friendship treaty, (c) Somali withdrawal of Soviet rights to naval and air facilities in Somalia, and (d) the expulsion of 1,500 Soviet advisers from Somalia.

Other LDC Clients

In South Asia, India continued its long dependence on the Soviet Union with arms orders, which include licensed production of MIG-21 bis aircraft in India, and continued Moscow's assistance for Indian defense production begun in the 1960s. India's cumulative military purchases from the USSR stood at \$3 billion at yearend 1977.

Deliveries at a Record Pace

The USSR shipped LDCs an unprecedented \$3.3 billion worth of military equipment last year, almost seven times Moscow's average annual deliveries to LDCs in the late 1960s and almost twice the average 1970-76 deliveries. At yearend 1977, the Soviets had delivered a total of \$21 billion of weapons to the LDCs, about 80 percent of its total commitment.

Three Arab customers—Iraq, Libya, and Syria—were among the top five recipients in 1977, along with India and Peru. Collectively, the five accounted for about 70 percent of Soviet deliveries. Ethiopia and Algeria were also major recipients. Moscow also made its first deliveries of important weaponry to Peru and Ethiopia—SU-22 fighter/bombers to Peru and MIG-21 bis to Ethiopia.

Military Technical Services

Approximately 33,000 Communist military personnel were in LDCs in 1977 to assemble and maintain equipment and to instruct local units in combat techniques and the maintenance of new weapons. In the case of Angola and Ethiopia, Cubans were engaged in actual combat. The preponderance of Cuban personnel and their overwhelming concentration in sub-Saharan Africa is shown in table 2.

The 50-percent rise in the number of military personnel in LDCs in 1977, compared with 1976, was almost entirely attributable to a near doubling of the Cuban contingent in Angola, where in addition to the usual advisory services, many were directly involved in combat support. Others worked in Angola before being transferred elsewhere. For example, a thousand Cubans were moved to Ethiopia before the end of the year for action against Somali forces in the Ogaden. Cubans also trained African insurgents for activities against established white governments.

Soviet and East European personnel in LDCs increased by more than 10 percent in 1977, compared with 1976; most of the gain occurred

in sub-Saharan Africa. The largest increases were in Ethiopia and Mozambique. The 1,500 Soviets in Somalia early in the year had all departed by yearend. Except in the sub-Sahara, we note a possible reduction in Communist technical support for arms sales compared with earlier years. The number of Communist military technicians assigned clients outside of black Africa in 1977 had changed little from the early 1970s when annual Communist arms deliveries totaled less than one-third the 1977 level. To some extent the difference in 1977 reflects the reduced needs of LDCs because of 15 to 20 years of Communist advisory services already provided and a cadre of 50,000 LDC nationals that had been trained in Soviet and East European institutions.

As in 1976, the largest concentration of Soviet personnel was in Syria, Iraq, and Libya which accounted for about one-half of the entire number. These three Arab states also received nearly one-half of Soviet - East European arms deliveries in 1977. Contingents of more than 500 were in Ethiopia and Angola, and 350-man teams were maintained in Afghanistan and South Yemen despite relatively small deliveries to those countries. The number of Chinese military technicians in LDCs declined for the second consecutive year.

LDC Trainees in Communist Countries

In 1977, 15 percent fewer LDC personnel went to Soviet and East European military institutions for training than in 1976. The drop was partially

Table 2
Communist Military Technicians in LDCs, 1977¹

	Total	Persons		
		USSR and Eastern Europe	Cuba	China
Total	32,795	10,250	21,850	695
North Africa	1,615	1,600	15	0
Algeria	615	600	15	0
Libya	1,000	1,000	0	0
Sub-Saharan Africa	26,015	4,115	21,325	575
Angola	19,500	500	19,000	0
Equatorial Guinea	400	50	250	100
Ethiopia	600	500	100	0
Guinea	350	125	200	25
Guinea-Bissau	200	50	150	0
Mali	175	175	0	0
Mozambique	350	200	50	100
Other	4,440	2,515	1,575	350
Latin America	110	100	10	0
Peru	100	100	0	0
Other	10	0	10	0
Middle East	4,380	3,880	500	0
Iraq	1,300	1,150	150	0
North Yemen	100	100	0	0
South Yemen	700	350	350	0
Syria	2,175	2,175	0	0
Other	105	105	0	0
South Asia	675	555	0	120
Afghanistan	350	350	0	0
Bangladesh	120	50	0	70
India	150	150	0	0
Pakistan	50	0	0	50
Other	5	5	0	0

¹ Number present for one month or more, rounded to the nearest five.

Table 3

Military Personnel from LDCs Trained in
Communist Countries,¹ 1956-77

	Persons			
	Total	USSR	Eastern Europe	China
Total	50,050	41,875	5,100	3,075
Africa	15,850	11,975	1,200	2,675
Algeria	2,275	2,050	200	25
Benin	25	25	0	0
Burundi	75	75	0	0
Cameroon	125	0	0	125
Congo	850	350	75	425
Equatorial Guinea	200	200	0	0
Ghana	175	175	0	0
Guinea	1,250	850	50	350
Guinea-Bissau	100	100	0	0
Libya	1,275	1,250	25	0
Mali	400	350	Negl	50
Morocco	150	75	75	0
Nigeria	600	550	50	0
Sierra Leone	150	0	0	150
Somalia	2,575	2,400	150	25
Sudan	550	325	25	200
Tanzania	2,450	1,425	Negl	1,025
Togo	50	0	0	50
Zaire	75	0	0	75
Zambia	125	75	0	50
Other	2,375	1,700	550	125
East Asia	9,300	7,600	1,700	0
Cambodia	25	25	0	0
Indonesia	9,275	7,575	1,700	0
Latin America	625	625	0	0
Peru	625	625	0	0
Middle East and				
South Asia	24,275	21,675	2,200	400
Afghanistan	4,025	3,725	300	0
Bangladesh	475	450	0	25
Egypt	6,250	5,675	575	0
India	2,250	2,175	75	0
Iran	325	325	0	0
Iraq	4,075	3,550	525	0
North Yemen	1,175	1,175	0	0
Pakistan	425	50	0	375
South Yemen	875	850	25	0
Sri Lanka	Negl	Negl	0	Negl
Syria	4,350	3,650	700	0
Other	50	50	0	0

¹ Rounded to the nearest 25 persons. Data refer to the number of persons departing for or in training but not necessarily completing training.

offset by on-site training conducted by Soviet and Cuban technicians in LDCs. Of the 2,700 Third World personnel that went for advanced training last year, more than one-half came from Ethiopia, Iraq, Tanzania, and Syria; and, as in most recent years, the largest number were trained on air defense systems, or as pilots, tank operators, and maintenance technicians (see table 3). Other countries in sub-Saharan Africa accounted for an additional 30 percent of the trainees.

Despite the fact that LDC training in the USSR is related to new orders of military equipment, we have found less correlation than before between the size of annual agreements and estimates of the numbers of trainees sent to the USSR. About one-half of the 50,000 LDC personnel trained in Communist countries since 1955 have gone for instruction in the past 12 years, a period during which 85 percent of total equipment orders were placed. The drop in number of trainees per dollar spent on equipment largely reflects the higher cost per unit of the more complex weapons systems and also the increasing emphasis on on-site training programs.

The Economic Aid Program in 1977

Communist economic aid to Free World LDCs in 1977 dropped to its lowest level in almost a decade, with only \$875 million in credits extended (see tables 4 and 5). The new commitments fell more than 50 percent from 1976 and were 60 percent below the average for the five preceding years. The most precipitous drop was in the Soviet program, as Moscow pledged less than \$400 million in aid, its smallest program since 1968. East European countries halved their aid offerings to \$326 million while Chinese aid rose slightly to \$158 million.

The decline in new commitments should not be interpreted as a shift in Communist economic aid policy. Deliveries, which approached \$1.2 billion in 1977, were in line with the record showings of

12932
2707
13339



Table 4
Communist Economic Credits and Grants Extended to LDCs

Million US \$ USSR
78

	1954-77				1976				1977			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total	24,842	12,932	7,420	4,490	1,803	945	721	137	875	392	326	157
Africa	5,672	1,840	1,490	2,342	610	369	171	70	211	21	123	67
North Africa	2,020	901	813	306	470	345	125	0	92	0	35	57
Algeria	1,332	716	524	92	290	290	0	0	0	0	0	0
Mauritania	90	5	0	85	0	0	0	0	0	0	0	0
Morocco	210	98	80	32	25	0	25	0	0	0	0	0
Tunisia	388	82	209	97	155	55	100	0	92	0	35	57
Sub-Saharan Africa	3,652	939	677	2,036	140	24	46	70	119	21	88	10
Angola	23	11	12	0	20	10	10	0	0	0	0	0
Benin	49	5	(*)	44	0	0	0	0	0	0	0	0
Botswana	3	0	0	3	0	0	0	0	0	0	0	0
Burundi	20	0	0	20	0	0	0	3	0	0	0	0
Cameroon	79	8	0	71	0	0	0	0	0	0	0	0
Cape Verde	(*)	(*)	0	(*)	(*)	(*)	0	0	(*)	0	0	0
Central African Empire	16	2	0	14	10	0	0	0	0	0	0	0
Chad	52	2	0	50	0	0	0	10	0	0	0	0
Comoros	(*)	0	0	(*)	(*)	0	0	0	0	0	0	0
Congo	69	14	5	50	0	0	0	(*)	0	0	0	0
Equatorial Guinea	1	1	0	(*)	0	0	0	0	2	(*)	2	(*)
Ethiopia	232	105	42	85	1	0	0	0	0	0	0	0
Gabon	25	0	0	25	0	0	0	1	23	0	23	0
Gambia	17	0	0	17	0	0	0	0	0	0	0	0
Ghana	240	94	104	42	0	0	0	0	0	0	0	0
Guinea	388	201	110	77	0	0	0	0	1	1	0	0
Guinea-Bissau	31	11	3	17	0	0	0	0	1	0	0	0
Kenya	65	48	0	17	0	0	0	0	0	0	0	0
Liberia	10	0	0	10	0	0	0	0	0	0	0	0
Madagascar	81	13	0	68	0	0	0	0	10	0	0	10
Mali	185	89	23	73	0	0	0	0	0	0	0	0
Mauritius	35	0	0	35	0	0	0	0	0	0	0	0
Mozambique	77	3	15	59	4	3	1	0	0	0	0	0
Niger	53	2	0	51	0	0	0	0	1	0	1	0
Nigeria	50	7	43	0	0	0	0	0	0	0	0	0
Rwanda	23	1	0	22	0	0	0	0	0	0	0	0
Sao Tome & Principe	(*)	(*)	0	(*)	(*)	(*)	0	0	0	0	0	0
Senegal	95	8	35	52	35	0	35	0	0	0	0	0
Sierra Leone	69	28	0	41	0	0	0	0	0	0	0	0
Somalia	292	154	6	132	0	0	0	0	0	0	0	0
Sudan	362	64	216	82	0	0	0	0	0	0	0	0
Tanzania	415	40	13	362	28	0	0	28	62	0	62	0
Togo	45	0	0	45	0	0	0	0	19	19	0	0
Uganda	31	16	0	15	0	0	0	0	0	0	0	0
Upper Volta	56	6	0	50	0	0	0	0	0	0	0	0
Zaire	100	0	0	100	0	0	0	0	0	0	0	0
Zambia	363	6	50	307	28	0	0	28	0	0	0	0
Europe	45	0	0	45	0	0	0	0	0	0	0	0
Malta	45	0	0	45	0	0	0	0	0	0	0	0
East Asia	809	156	346	307	5	0	5	0	0	0	0	0
Burma	126	16	26	84	0	0	0	0	0	0	0	0
Cambodia	134	25	17	92	0	0	0	0	0	0	0	0
Indonesia	482	114	263	105	0	0	0	0	0	0	0	0
Laos	31	1	4	26	0	0	0	0	0	0	0	0
Philippines	36	0	36	0	5	0	5	0	0	0	0	0
Western Samoa	(*)	0	0	(*)	(*)	0	0	(*)	0	0	0	0

3,707.1
2,010.0
2,000
2,000
10

5

16

Footnotes at end of table.

Communist Economic Credits and Grants Extended to LDCs (Continued)

Million US \$

	1954-77				1976				1977				
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China	
Latin America	2,430	938	1,339	153	156	(*)	155	1	108	30	78	0	15 -7
Argentina	512	220	292	0	0	0	0	0	0	0	0	0	
Bolivia	111	59	52	0	(*)	(*)	(*)	0	15	0	15	0	
Brazil	508	88	420	0	100	0	100	0	0	0	0	0	
Chile	448	238	145	65	0	0	0	0	0	0	0	0	
Colombia	281	210	71	0	50	0	50	0	0	0	0	0	
Costa Rica	17	15	2	0	(*)	0	(*)	0	(*)	0	(*)	0	
Ecuador	19	0	19	0	0	0	0	0	(*)	(*)	0	0	
Guyana	76	(*)	40	36	0	0	0	0	20	(*)	20	0	
Jamaica	48	30	8	10	1	0	0	1	38	30	8	0	
Mexico	35	(*)	35	0	(*)	(*)	(*)	0	35	0	35	0	
Peru	282	26	214	42	(*)	(*)	0	0	0	0	0	0	
Uruguay	83	52	31	0	5	0	5	0	0	0	0	0	
Venezuela	10	(*)	10	0	(*)	(*)	0	0	0	0	0	0	
Middle East and South Asia	14,874	9,446	3,954	1,474	537	249	260	28	495	341	104	50	
Afghanistan	1,379	1,263	40	76	0	0	0	0	0	0	0	0	
Bangladesh	524	304	159	61	0	0	0	0	50	0	0	50	
Cyprus	5	0	5	0	5	0	5	0	0	0	0	0	
Egypt	2,464	1,440	890	134	0	0	0	0	95	0	95	0	
Greece	8	8	0	0	0	0	0	0	0	0	0	0	
India	2,738	2,283	455	0	0	0	0	0	340	340	0	0	
Iran	1,490	805	685	0	45	0	45	0	0	0	0	0	
Iraq	1,192	704	443	45	150 ¹	150 ¹	0	0	(*)	0	(*)	0	
Jordan	25	25	(*)	(*)	25	25	(*)	0	(*)	0	(*)	(*)	
Kuwait	(*)	0	0	(*)	0	0	0	0	(*)	0	0	(*)	
Lebanon	9	0	9	0	0	0	0	0	0	0	0	0	
Nepal	201	21	0	180	(*)	(*)	0	0	1	1	0	0	
North Yemen	225	105	13	107	25	0	0	25	0	0	0	0	
Pakistan	1,349	652	124	573	10	0	10	0	6	0	6	0	
South Yemen	142	39	24	79	24	24	0	0	3	0	3	0	
Sri Lanka	331	100	73	158	3	0	0	3	0	0	0	0	
Syria	1,382	517	804	61	50	50	0	0	0	0	0	0	
Turkey	1,410	1,180	230	0	200	0	200	0	0	0	0	0	
Other	1,012	552	291	169	495	327	130	38	61	0	21	40	

¹ Estimate.

² An economic cooperation agreement has been signed, but information on the amount of aid extended—if any—is not available.

Table 5
Communist Economic Aid to LDCs¹

Million US \$

	Agreements				Deliveries			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total	24,842	12,932	7,420	4,490	12,295	7,150	2,885	2,260
1954-67	8,792	5,664	2,165	962	3,680	2,555	675	445
1968	662	379	220	63	505	310	125	70
1969	894	476	401	16	535	355	105	70
1970	1,177	200	196	781	605	385	145	70
1971	2,172	1,126	484	563	795	415	190	190
1972	2,176	654	915	607	860	430	170	260
1973	1,870	709	587	574	950	500	215	240
1974	1,990	816	893	282	1,180	700	225	250
1975	2,431	1,572	511	348	920	500	240	180
1976	1,803	945	721	137	1,105	460	365	285
1977	875	392	326	157	1,165	535	430	200

¹ Because of rounding, components may not add to the totals shown.

1978 5,395 3705 1500 1865 1,010 430 364 217



1974 and 1976, and large new aid offerings were being negotiated. Annual fluctuations in commitments are not necessarily indicators of long-run intentions or a sign of change in aid philosophy. For the Soviets, broad swings from year to year often reflect aid opportunities as well as long gestation periods before accords are signed.

In any case, 1977 data tend to understate the full extent of the continuing Soviet and East European aid effort because coverage is affected by the following considerations: (a) fewer new credit agreements are being publicized, and (b) new framework agreements and general technical and economic accords (widely used by European Communist countries) are open ended and do not usually specify the amount of the aid. For example, we noted in 1977 a \$200 million Soviet allocation for Colombian power development under a 1975 open-ended trade agreement, which provided 10-year credits. In our bookkeeping, we assign this and other new obligations of funds to the original agreement—in this case, the 1975 accord. A similar agreement signed with Bolivia in 1976 resulted in Bolivian orders for \$30 million of machinery and equipment for the tin industry in 1977.

We expect annual aid levels to continue to fluctuate widely, as Communist countries increasingly rely on framework agreements to govern their financial relationships with LDCs.

These agreements, which outline the principles of cooperation, often do not specify credit limits, even though they may identify areas of cooperation and in some cases the actual projects to be undertaken. The following tabulation lists Communist-LDC framework agreements signed in 1977 for which definite credit values were not specified. The new agreements often include a mixture of supplier-type credits and straight commercial arrangements as part of aid-related packages for implementing LDC development programs.

The framework agreements give Moscow a broad base for assisting LDC development, while reaping the benefits of return flows of raw materials. We expect Moscow to use the flexible new accords to exploit opportunities for establishing long-term supply relationships for strategic industrial materials.

Soviet Aid: Few New Initiatives

We found few surprises among Moscow's 1977 economic aid offerings. Only the \$340 million development credit to India—Moscow's first to India in more than a decade—was of unusual interest. The new assistance was granted in spite of the existence of some \$460 million in unused credits from previous Soviet-Indian aid pacts. The aid to India accounted for 85 percent of total Soviet economic aid extensions in 1977. Not only

Framework Agreement, 1977

	USSR	East					China
		Bulgaria	Germany	Hungary	Poland	Romania	
Afghanistan	X						
Angola			X		X		
Burundi						X	
Cape Verde							X
Costa Rica	X					X	
Ecuador				X			
Equatorial Guinea							X
Guyana	X						
Jordan		X	X		X		X
Kuwait							X
Mozambique	X	X					
Sao Tome and Principe			X				
Syria	X						
Turkey				X			

1978
 Ethiopia X

✓

is the new agreement Moscow's largest commitment under the \$2.3 billion Soviet aid program for India begun in February 1955, but also the credits carry the most liberal terms (up to 20 years' repayment at 2.5-percent interest) the USSR has ever offered to New Delhi. A large part of the credit will be used to finance an alumina project, a development area to which Moscow has been giving increasing amounts of aid.

The USSR also signed its first economic aid agreement with Jamaica in 1977 for geological prospecting, a cement plant, and training schools. Its only other important offering was a \$19 million credit to Tanzania for agriculture and education projects. This first Soviet credit to Tanzania since 1966 and its only new development aid to Africa in 1977 did little to stem criticism of Moscow's neglect of economic development in Africa.

Commercial Accords Expanded

During 1977 the Soviets redoubled efforts to sell machinery and equipment in the commercial markets of traditional Middle Eastern customers. Several large contracts probably will be executed on a commercial basis:

- A second gas pipeline from Iran to the Soviet border.
- The Mosul Dam in Iraq to irrigate 1.6 million hectares of land and provide 500 megawatts (MW) of power.
- The 240-MW Darbendikhan power plant in Iraq.

The USSR also accelerated work on \$1 billion in Iraqi power and irrigation contracts signed in 1976 and began studies to expand steel, coal, and iron ore production in Iran under 1976 agreements.

Other Communist Aid

Eastern Europe's \$325 million in new commitments in 1977 reflected traditional concerns with building up markets for industrial and agricultural equipment in the Third World as well as a

new determination to ensure future oil supplies. East Germany was responsible for two-thirds of Eastern Europe's credits to LDCs in 1977, with Egypt receiving the largest allocation (\$95 million for rural electrification). A handful of \$20 million credits were distributed among African and Latin American countries, mostly to stimulate equipment exports. East European countries also are pursuing opportunities for ensuring long-term raw materials supplies through their aid programs; new agreements with the Third World have stressed the return flow of these strategic goods. East European countries actively bid on commercial development projects in Iran, Iraq, and Kuwait in 1977, hoping to obtain long-term commitments for oil.

Chinese assistance, designed to further Peking's international political ties, has never had the commercial orientation that has become a principal characteristic of other Communist programs. While the shipment of commodities and equipment under credit has stimulated Chinese exports to the Third World and nominal repayments in the form of strategic commodities are flowing to China, Peking has never considered the program as having major commercial advantages. The Chinese aid program has been de-emphasized in the period of economic and political turbulence surrounding Chairman Mao's death. Extensions in 1977 of only \$160 million—almost all for agricultural projects for which China is noted—reflect continuing domestic restraints.

In contrast with the decline in extensions, Communist economic aid disbursements approached \$1.2 billion in 1977, the highest level ever except for 1974, when Moscow's \$250 million worth of wheat shipments to India pushed aid to record heights. Almost all of the deliveries to the Third World in 1977 were for development projects.

Technicians

The number of Communist technicians posted to LDCs climbed to 90,000 in 1977 as work accelerated on major development projects (see table 6). East Europeans were the fastest grow-

Table 6

Communist Economic Technicians¹ in LDCs, by Country, 1977

	Total	USSR and Eastern Europe	China	Cuba
Total	89,345	58,755	24,015	6,575
Africa	61,510	34,290	21,320	5,900
Algeria	6,465	6,200	250	15
Angola	4,710	700	10	4,000
Ethiopia	900	250	250	400
Ghana	155	105	50	0
Guinea	1,010	710	300	NA
Liberia	240	15	225	0
Libya	15,000	15,000	0	0
Mali	875	375	500	0
Mauritania	360	60	300	0
Mozambique	1,000	500	100	400
Somalia	4,080	1,050	3,000	30
Sudan	2,125	125	2,000	NA
Tanzania	1,365	165	1,000	200
Tunisia	700	650	50	0
Uganda	55	30	25	NA
Zambia	5,125	125	5,000	NA
Other	17,345	8,230	8,260	855
Europe	335	25	300	10
Malta	335	25	300	10
East Asia	255	125	130	0
Burma	155	25	130	0
Indonesia	40	40	0	0
Other	60	60	0	0
Latin America	1,300	830	135	335
Bolivia	130	130	0	0
Jamaica	125	20	5	100
Peru	355	290	15	50
Other	690	390	115	185
Middle East and South Asia	25,945	23,485	2,130	330
Afghanistan	1,485	1,350	135	0
Bangladesh	145	125	20	0
Egypt	1,225	1,200	25	0
India	1,275	1,275	0	0
Iran	3,850	3,850	0	0
Iraq	6,300	6,100	200	0
Nepal	280	30	250	0
North Yemen	605	155	450	0
Pakistan	795	545	250	0
South Yemen	1,375	950	425	NA
Sri Lanka	450	150	300	NA
Syria	4,950	4,900	50	0
Turkey	1,175	1,175	0	0
Other	2,035	1,680	25	330

NA—Not available.

¹ Rounded to the nearest five persons. Data are minimum estimates of the number of persons present for one month or more.

ing contingent, as in 1976, and accounted for one-half of the growth in their number in 1977. Most of the East Europeans continued to be concentrated in Arab countries, particularly North Africa, where they have large cash contracts with wealthy oil-producing states for construction services. Libya, whose small unskilled work force has not been able to contribute effectively to its development efforts, absorbed 15,000 of the East Europeans in 1977.

The Cuban presence in developing countries rose to almost 6,600 in 1977, more than one-third higher than in 1976. This increase reflects the influx of economic advisers into Angola and Mozambique for staff positions in economic ministries and for jobs as doctors, teachers, and construction workers. In the initial years (1975-76) of its technical services program, Havana apparently charged only local costs for most of its technicians (similar to China's arrangements); in 1977, in contrast, Cuba apparently had begun to demand hard currency salary payments for these personnel. While we do not know the terms of the agreements, charges for Cuban services are still far lower than those for European Communists.

The expanding Cuban presence in Africa, now entering its fourth year, has heightened tensions as Havana begins to attack domestic economic problems. In Angola and Mozambique, where the populace exists at bare subsistence levels, resentment against foreign personnel has increased. For their part, many Cubans resent the rigor of their African assignments, and their morale reportedly is low. Nonetheless, Fidel Castro in December 1977 announced plans to increase technical support to Third World countries.

Soaring costs for Soviet technicians were partly responsible for the slow growth (15 percent) of the Soviet technical contingent in Third World countries in 1977. Of the 22,400 present in LDCs, 60 percent were employed at development projects in six client states—Afghanistan, India, Algeria, Iran, Iraq, and Syria. Charges for Soviet technical services shot up in 1977 and typical salaries for Soviet doctors, teachers, and other administrative personnel employed by Third World countries range up to \$20,000 annually.

Most countries also must pay local housing and transportation expenses, which can double the cost of the services program. In poorer countries, the USSR still finances technical services for projects under long-term credit agreements, but wealthier states are paying cash.

Third World demand for China's low-cost services remained high in 1977, especially in sub-Saharan Africa. Technical assistance continued as the most widely praised aspect of China's aid program. China sent an additional 3,350 Chinese to African development projects, bringing their total number to 21,000. Chinese personnel in sub-Saharan Africa accounted for nearly 90 percent of Peking's entire technical personnel on assignment in the Third World and for all of the increase in the Chinese presence in LDCs in 1977. Chinese project technicians, financed under aid agreements, receive pocket money plus local subsistence valued at about \$100 a month from a host country. Peking probably provided 1,500 medical personnel present in LDCs in 1977 free of charge.

Technical Training

On-site training of LDC personnel has been a major feature of the Communist technical services program. More than 600,000 locals have received training at Communist construction sites in the Third World, according to the Soviet press. In addition, the USSR and Eastern Europe have built and equipped 26 higher and specialized schools and 100 technical training centers that reportedly have graduated 550,000 students. These training efforts have concentrated on major client states in the Middle East and South Asia; only about 25,000 black Africans have received on-the-job training.

Only 3,200 technical personnel from developing countries went to Communist enterprises for training in 1977. Again, most of them came from the Middle East and South Asia where they would return to work on steel and other heavy industrial projects.

Cuba entered the training field in force during 1977 with the initiation of a new vocational training program at the secondary school level for students from African countries. At least

2,000 students from Angola and Mozambique arrived at the Isle of Pines in Cuba to participate in the program; up to 20,000 students are expected. As part of its new program to provide mass education services to its new allies in Africa, early in 1978 Cuba sent 700 Cuban teacher trainees to Angola to teach at the primary and secondary levels to fulfill their degree requirements for practical field experience.

Academic Students

A vigorous recruiting effort among the Communist world's African and Middle Eastern cli-

ent states brought some 8,000 new students to Communist academic institutions in 1977 and raised the Third World student population in Communist countries to more than 40,000 (see table 7). Sub-Saharan Africa, which has always dominated the Communist academic program, was represented by nearly 18,000 students, compared with 12,300 just two years ago. Most of the students are in the USSR on scholarships, which cover subsistence, living quarters, tuition, books, and round trip transportation.

Other Communist programs are not so generous. East European countries apparently

Table 7
Academic Students From Selected LDCs Being Trained in Communist Countries
as of December 1977

		Persons	
Total	40,345		
Africa	20,780		
North Africa	2,965		
Algeria	1,460		
Mauritania	275		
Morocco	745		
Tunisia	385		
Other	100		
Sub-Saharan Africa	17,815		
Angola	680		
Benin	215		
Botswana	25		
Burundi	240		
Cameroon	165		
Cape Verde	20		
Central African Empire	485		
Chad	555		
Comoros	15		
Congo	1,385		
Equatorial Guinea	250		
Ethiopia	1,385		
Gambia	50		
Ghana	565		
Guinea	965		
Ivory Coast	175		
Kenya	530		
Madagascar	580		
Mali	485		
Mauritius	255		
Nigeria	1,390		
Rwanda	265		
Senegal	280		
Sierra Leone	550		
Somalia	695		
Sudan	1,800		
Tanzania	720		
Togo	230		
		Sub-Saharan Africa (Continued)	
		Uganda	220
		Upper Volta	300
		Zaire	445
		Zambia	315
		Other	1,580
		East Asia	20
		Latin America	4,445
		Bolivia	205
		Brazil	95
		Colombia	910
		Costa Rica	485
		Ecuador	755
		El Salvador	120
		Guatemala	25
		Guyana	70
		Mexico	120
		Nicaragua	130
		Peru	525
		Venezuela	90
		Other	915
		Middle East	11,320
		Cyprus	1,040
		Egypt	775
		Iraq	560
		Lebanon	480
		North Yemen	850
		South Yemen	555
		Syria	3,595
		Other	3,465
		South Asia	3,780
		Afghanistan	1,025
		Bangladesh	1,270
		India	540
		Nepal	420
		Pakistan	195
		Sri Lanka	330



charge wealthier LDCs for scholarships, payable in hard currency. Few Third World students studying in Eastern Europe (except in Bulgaria) have complained in recent years about the curriculum, their treatment, or living conditions. Many of the Soviet-based trainees can barely get by on the 90 rubles a month allowed by their all-expense scholarships, and most complain of poor living conditions, discrimination, and indoctrina-

tion. Nonetheless, for most it is their only opportunity for an advanced education.

About 53,000 students have returned home from European Communist schools over the past two decades. The acute need for skilled personnel has muted Third World criticism of Communist training, and Communist degree holders are encountering less discrimination than before in their search for employment at home.

APPENDIX A

Country Sections

North Africa

Summary

In 1977, North Africa benefited from a substantial expansion of the USSR's military and economic program. Moscow's new military agreements consolidated the almost complete Soviet monopoly over sales of modern weapons to Algiers and enhanced the Soviet role as the chief supplier of arms to Libya. These agreements, along with new pacts with Syria, give the USSR a position of influence with the "Steadfastness Front" opposing accommodation with Israel; the Front was formed in November 1977 after Egyptian President Sadat initiated his peace dialogue with Israel.

Algeria's new military supply contracts doubled its commitment to buy Soviet arms and moved it further toward its goal of military dominance in the area. Moscow's large-scale military supply program also provides Algeria with important political/psychological and strategic support against a Moroccan arms buildup, which has been touched off by escalating tensions over the Western Sahara.

Libya's cumulative arms purchases from the USSR have risen to \$2.5 billion. The supply of arms is the cement binding Soviet-Libyan relations. The Libyan arsenal of Soviet weapons, mostly delivered since 1974, gives Qadhafi the means of contributing to the Arab confrontation with Israel. Libya's own armed forces remain constrained by a shortage of skills; vast quantities of their rapidly growing stock of arms remain in storage, from which they can be readily withdrawn to resupply other Arab forces in the event of reopened fighting with Israel.

Elsewhere in the Maghreb, Morocco gave preliminary approval to a phosphate agreement, the largest single Soviet deal with a Third World country.

Algeria

Political and logistical support for Soviet and Cuban operations in Africa, combined with opposition to Egyptian peace initiatives in the Middle East, has assured Algeria a preferred status among Moscow's arms clients. Soviet equipment ordered in 1975-77 will expand and further modernize Algeria's military forces. It also will serve as the basis for reorganizing Algerian ground forces into mobile units better suited for desert warfare. A large increase in the 600 Soviet military technicians present in 1977 is expected for training Algerian personnel in the operation and maintenance of the new equipment. Moscow delivered an impressive array of advanced equipment in 1977 that included Algeria's first MIG-23 jet fighters, OSA patrol boats, large numbers of tanks, armored vehicles, and self-propelled guns.

Some of the less sophisticated Soviet equipment from Algerian inventories may find its way to Polisario insurgent forces opposing the Moroccan/Mauritanian annexation of the Western Sahara. Moscow has not publicly endorsed Algerian support of the insurgents, although rumors suggest that Soviet and East German civilian technicians are setting up a helicopter base at Tindouf, on the Western Saharan border, to serve Polisario forces.

Revamping the Economic Relationship

Closer military ties have helped to revitalize Soviet-Algerian economic relations. Negotiations began in earnest in 1977 on several major projects under the 1976 framework accord. Included are a second steel plant to process iron ore from Gara Djibilet in western Algeria, petroleum refineries, a heavy machine building complex, and a dam and irrigation project. Meanwhile, design

work proceeded on the M'sila aluminum plant and associated facilities, including a railroad and a 600-MW power plant that will increase Algerian power output by one-third. Soviet technicians completed a rolling mill at the Soviet-built Annaba steel mill in 1977 as part of a program to raise output at the plant to 4 million tons.

Libya

The Libyan-Soviet relationship rests almost solely on arms supply. The Libyan arsenal of Soviet weapons, mostly delivered since 1974, has ended Tripoli's isolation from other Arab confrontation states and to some extent has enabled Libya to recapture the influence it enjoyed before the 1973 war. Libyan inventories can be and are being used to augment other pro-Soviet forces in the region; Libya already has transferred weapons to Soviet clients such as Ethiopia and the Palestinians.

Moscow values the relationship with Libya not only for the large hard currency receipts but also for the opposition generated against a bilateral Egyptian-Israeli settlement.

At the same time that the Soviets have expeditiously provided Tripoli with a modern military establishment, they have created enormous maintenance and training problems for Libya's armed forces. Still Colonel Qadhafi has been reluctant to expand the number of Soviet technicians beyond the 800 present in 1977 despite the deterioration of some equipment for lack of maintenance under tough desert conditions. Instead, Libya is turning to Cuba for military training and maintenance personnel.

Mauritania

Outside of France, the People's Republic of China has become the most influential non-Arab country in Mauritania, being the most important recent source of economic aid. Chinese prestige stems as much from Peking's ostensible political neutrality in the Saharan dispute as from participation in Mauritanian development. Work in 1978 will begin on the ambitious deep-water port at Nouakchott despite Peking's reservations over

its lack of construction experience on Africa's Atlantic coast. The project, which may bring as many as 3,000 Chinese technicians into the country, will more than double Mauritania's cargo-handling capacity.

Soviet-Mauritanian relations remained cool in 1977 because Mauritania is convinced that the USSR supports Algerian and Polisario military activity in the Sahara. Mauritanian suspicions extend to Cuba and North Korea, and in May 1977 Mauritania broke relations with North Korea over the Sahara question.

Morocco

The USSR has maintained cordial relations with Rabat while privately supporting Algeria in the dispute with Morocco over the Western Sahara. Despite the brief standdown in relations in 1976 over Soviet military deliveries to Algeria, at yearend Morocco and the USSR were on the verge of signing a 30-year agreement, which is expected to provide up to \$2 billion in credits for developing the Meskala phosphate deposits in southern Morocco.¹ Ancillary facilities to be constructed over a 10-year period include a railroad, a network of roads, and port, storage, and mining facilities. According to Morocco, combined trade and credit transactions under the agreement will total \$10 billion by the end of the century, propelling Morocco into first place among Moscow's African trading partners.

Most of the 10-million-ton annual output from Meskala will be exported to the USSR as repayment for the construction loan or will be bartered for other Soviet goods. Until Meskala comes onstream, the USSR will import phosphate rock from other mines in Morocco.

The number of East European professional personnel in Morocco was expanded further in 1977, and Eastern Europe's commercial construction services continued to grow. The number of nonmilitary technicians rose to 1,500 in 1977 from 1,000 in 1976. Romanians led, with 750 employed as teachers and construction workers

¹ The agreement was signed in March 1978.

on a new port at Nador, the future site of a steel complex. About 500 Bulgarians worked in agriculture and education.

Tunisia

Peking added \$57 million in credits to the \$40 million promised in 1972 for a canal and transportation projects. The new commitment made China the largest current Communist donor and accountable for one-fourth of total Communist economic aid to Tunisia. Moscow's slightly smaller program is longer standing, and Soviet credits extended in 1961-67 have by now been largely drawn. Survey teams began studies in 1977 on dam construction and expansion of a Soviet-built technical school, both programed under Moscow's \$55 million credits of 1976. The only new East European economic aid in 1977 was Hungary's \$35 million of credits for agricultural development.

Sub-Saharan Africa

Summary

Rising international criticism did not deter Moscow from further military adventures in sub-Saharan Africa in 1977. The value of new military agreements soared to triple the level of 1975 when the Angolan insurgency offered Moscow a unique opportunity to expand its military role in Africa. Soviet arms transfers last year neared \$600 million, almost double previous peak deliveries to the region.

These record-setting transactions reflected a major shift in Soviet policy in the Horn of Africa, where Moscow abandoned its former preferred client, Somalia, in favor of Ethiopia soon after Mogadiscio invaded the Ogaden region of Ethiopia in summer 1977. Soviet agreement to provide modern equipment to Ethiopia was accompanied by an embargo on shipments of offensive weapons to Somalia. Mogadiscio reacted by abrogating the 1974 Somalia-Soviet friendship treaty in November, withdrawing Soviet rights to naval and air facilities, and expelling some 1,500 Soviet military advisers.

Conservative Arab backing notwithstanding, Somalia was not able to obtain substantial amounts of heavy arms from alternate suppliers. Unable to replenish its fast-dwindling arsenal and outgunned and outmanned more than 2 to 1 by the combined Ethiopian-Cuban force, the Somali invaders were defeated quickly and driven out of the Ogaden.

As in Angola, the unprecedented arms buildup in Ethiopia was accompanied by the introduction of sizable numbers of Soviet-sponsored Cuban military personnel. The Cubans have served as combat troops, maintenance technicians, and instructors on the new equipment. The buildup of the Cuban contingent in Ethiopia was part of a near-doubling of Cuban military personnel in sub-Saharan Africa to 21,300 troops. Most other Cuban arrivals in 1977 went to Angola to help the revolutionary government combat increasing challenges from the rebel National Union for the Total Independence of Angola (UNITA); rebel forces continue operating in outlying areas. Cubans have also been moving into civilian jobs in increasing numbers. In 1977 almost 6,000 Cuban nonmilitary technicians were present in black Africa, performing jobs as doctors, teachers, and construction workers, largely in Angola.

In spite of public outcry against Soviet-Cuban interference, Moscow continued to channel arms and advisers to southern Africa's guerrilla groups, operating against Rhodesia and Namibia. The availability of Soviet arms has resulted in an intensification of guerrilla activity against white strongholds and has helped to strengthen the radical black nationalists' ability to resist negotiated settlements. As the USSR has renewed and deepened its commitment to black liberation movements and to the established governments backing the movements, it has become the major source of weapons for the principal frontline states.

The value to Moscow of its status as black Africa's major military supplier was somewhat eroded by setbacks in several former client states. In Somalia, the loss of extensive naval and air facilities hampered Soviet naval capabilities

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in the Red Sea and Indian Ocean. Sudan renounced its Soviet military ties and joined conservative Arab states in calling for an end to Soviet military intervention in the Red Sea area.

Many African countries, favoring African solutions to the continent's problems, are unhappy with Moscow's military presence and have demanded that the USSR focus on the region's economic problems. Moscow nonetheless has shown no inclination to change its comparative indifference to sub-Saharan Africa's economic affairs. In 1977, it extended only \$21 million in new economic aid, almost all to Tanzania. Except for technical assistance, Soviet economic programs on the continent have always been aimed primarily at North Africa. Sub-Saharan states have received less than 10 percent of Moscow's \$13 billion in worldwide economic commitments over the last 23 years. The number of Soviet technical people in black Africa grew by more than 25 percent in 1977 to 4,400, employed mostly in administration, education, and public health.

In 1977, Chinese aid extensions to sub-Saharan Africa fell to an eight-year low, with Liberia and Cape Verde signing their first economic agreements with Peking. Peking's cumulative \$2 billion of economic aid commitments to sub-Saharan Africa has made Peking the most effective international donor to the poorer African countries. The recent decline in new agreements with African states probably stems from economic constraints within China rather than from an alteration in Peking's African policy.

Angola

The May coup attempt against the ruling Popular Movement for the Liberation of Angola (MPLA) demonstrated Angola's continuing need for Communist military services, technical support remains the bulwark of the Communist commitment to Angola. The Communist presence in Angola, however, is resented by the population because of the economic hardships being experienced by the local people.

Communist personnel have taken over some of the administrative and professional roles of the 400,000 to 500,000 Portuguese expelled at independence, and in 1977 some 4,700 Communist technicians, mostly Cubans, were trying to prop up Luanda's faltering economy.

Soviet advisers, numbering about 200, are present in every government ministry and are described as in virtual control of the police, railroads, aviation, and fishing. The 4,000 Cubans have even more influence at the operating level. They manage Angola's foreign trade and international banking, and Cuban doctors, teachers, and construction workers are prominent throughout Angola. Havana accepted 1,000 Angolan secondary students for training in Cuba last year.

Despite infiltration of Communist personnel into almost every phase of Angola's economic life, the Communists have not been able to contain the rapid deterioration of Angola's economy. Many shops in Luanda remain closed, and bread and meat are scarce. Petroleum, mineral, and agricultural production have reached 10-year lows because of nationalization measures and shortages of skilled and management personnel.

A series of new Communist technical assistance agreements will raise further the level of Communist technical services:

- Cuba is expected to increase its economic contingent to more than 5,000 under a November 1977 agreement.
- Bulgaria agreed to send 500 additional agricultural specialists, one-half of whom had arrived by the end of 1977.
- Hungary agreed to provide technical assistance for developing pharmaceuticals and other industries.
- Romania and Poland signed general agreements dealing with agriculture, industry, and geology, all calling for a further influx of personnel.

Late in 1977, the USSR and Angola agreed to form a joint committee to administer Soviet activities in Angola. The USSR will provide boats and crews for a joint navigation company. Soviet trawlers have already begun fishing Angolan waters under a March 1977 agreement that gave the USSR fishing rights in exchange for trawlers, fishing equipment, technical assistance, and fish for Angolan consumption.

Ethiopia

Ethiopia's sudden shift from Western to Communist military supplies late in 1976 touched off a massive Soviet-led arms buildup, unprecedented in sub-Saharan Africa. Moscow, which had judged Ethiopia a greater strategic prize well before the November 1977 break with Somalia, welcomed the opportunity to demonstrate solidarity with Mengistu's Marxist-Leninist regime.

The Soviets, who had no illusions about Ethiopian competence, conceived of their task as a military supply operation that would quickly convert the US-equipped and trained Ethiopian Army to Soviet military doctrine and the use of modern Soviet weapons. As in Angola, Cuba, acting in concert with Moscow, provided thousands of combat-support troops and technicians to man and service modern Soviet-supplied arms. The number of Cubans in Ethiopia reached 1,000 and was continuing to climb at yearend.

The Economy Weakened

Ethiopia's military expenditures have further weakened the already ailing economy, and damage to facilities in outlying battle areas has added to the strains. Addis Ababa's appeals to Communist countries for additional economic assistance produced few results. Moscow made no new economic commitments in 1977, although it allowed Ethiopia to draw on a longstanding \$100 million credit line for petroleum and agricultural development. Capacity at the Soviet-built Assab refinery will be increased by 75 percent under the program, and Moscow will

construct a pipeline and oil storage depots and will develop an irrigation system in the Awash River area in eastern Ethiopia. A \$20 million East German loan—to upgrade Ethiopia's primitive road transport and port facilities—was Ethiopia's only new aid from a Communist country. Ethiopian fund-raising tours to other East European countries were less successful, although a few small contracts for vehicles may have been signed.

China in 1977 maintained the largest active aid program in Ethiopia. Still operating under the \$100 million line of credit of 1971, China continued work on the Waldiya-Woreta road and small electrification projects. Peking also signed agreements to construct a stadium and textile, porcelain, and cement plants.

Madagascar

Western countries and institutions continue to dominate trade and aid in Madagascar despite deliberate government policy to loosen political ties with the West. Madagascar's encouragement of Communist ties in the past few years has resulted in a highly visible and publicized Communist influx and Western withdrawal from this small Indian Ocean country. While President Ratsiraka has clearly displayed an ideological preference for the socialist camp, he has no desire to isolate his country from Western economic support and remains wary of Russian pressure for Soviet naval facilities at Diego Suarez.

The \$13 million in Soviet economic credits, extended under a 1974 agreement for a flour mill, power and irrigation projects, and possibly a cement plant, are overshadowed by China's \$68 million in economic commitments. Work is expected to begin soon on China's largest project, an all-weather road between Antananarivo and the port of Tamatave. China completed an agricultural machinery plant at Tulear in 1977. Peking also began work at a match factory and an experimental farm and conducted studies for small hydroelectric plants and a pharmaceutical plant now in the planning stage.

Mali

Mali's continued willingness to provide the USSR with facilities for its ventures in southern Africa warmed Soviet-Malian relations. At mid-year, Moscow pledged new aircraft to augment Bamako's MIG inventory.

China's \$73 million economic assistance program, although not as spectacular as Moscow's military support, has won the admiration of local officials because of the effectiveness of Chinese technicians. With less than \$10 million in assistance remaining to be drawn on old agreements, China will be winding down its aid effort in Mali unless major new projects are announced soon.

Mozambique

Early in 1977, Mozambique's ruling party passed a series of economic and political resolutions designed to transform Mozambique into a Marxist-Leninist state and signed long-term friendship agreements with the USSR and Cuba. The revolutionary government's ties with the Second World spring from a decade of Communist political and financial support of Mozambique's struggle for independence from Portugal. Since independence in 1975, the Communist presence has increased steadily.

Soviet Military Presence

Mozambique relies on Communist countries for its arms, provided in response to President Samora Machel's call for aid to defend his nation against Rhodesian cross-border operations. Soviet deliveries include medium tanks, armored vehicles, personnel carriers, artillery pieces, anti-aircraft guns, and rocket launchers.

We estimate that 200 Soviet and 50 Cuban military personnel were in Mozambique in 1977, and their number continued to climb early in 1978.

The Economic Presence

Mozambique's economic ties with Communist countries have developed at a slower pace than military ties. Efforts to induce government agen-

cies to buy Communist goods have failed because price, financing, service, quality, and delivery times are less favorable than those of traditional European suppliers. Few financial benefits have flowed to Mozambique from its Communist economic aid agreements, and Maputo probably is paying cash for most Communist technical services. These services, largely in administrative and professional jobs vacated by the Portuguese, constitute the strongest bonds in the economic sphere. About 1,000 Communist economic personnel were in Mozambique in 1977, led by 400 Cubans who arrived under an agreement signed by Fidel Castro during a visit in March.

The only ongoing Communist project is a fishing fleet operation out of Beira and Maputo, run by the Soviets and Cubans. In return for fishing rights, the USSR has delivered some low-quality fish to Mozambique, an arrangement that Maputo has protested. The USSR has offered to help develop, with Bulgarian assistance, 300,000 hectares of agricultural land in the Limpopo Valley. The project would be the first major European Communist aid undertaking for Mozambican development.

China, unable to contribute appreciably to Mozambique's military requirements, has provided a \$55 million line of credit in 1975 and reached agreement in 1977 to build a textile plant with the credits.

Nigeria

Communist countries, striving to participate in Nigeria's ambitious economic and military development plans, were successful in obtaining several large development contracts in 1977. Most were cash deals, although some of the contracts with East European countries may have allowed drawings on credits outstanding from earlier agreements.

The most important Communist economic venture in Nigeria—the much-discussed Ajaokuta steel mill project—got under way late in the year. First-stage production is scheduled for 1981, with full commissioning in 1984. The value and terms of Soviet participation in the project

have never been announced. Soviet technicians also arrived in Nigeria to start work on 900 kilometers of petroleum pipelines under a \$137 million commercial contract signed last year. Completion is set for late 1978.

East European countries also bid on new contracts and undertook work on some already awarded:

- Romania initiated construction of a \$35 million wood-processing plant.
- Hungary began deliveries of hospital equipment under a \$22 million contract.
- Poland, with the most extensive business interests in Nigeria (three joint companies, which trade in complete plants, electrical equipment, pharmaceuticals, and fishing industry products) won contracts for power equipment to develop coal mines.
- Czechoslovakia offered equipment for water resources development, a cement plant, and a brewery.

Somalia

The expulsion of Soviet advisers in November and the abrogation of the 1974 friendship treaty culminated a year of deteriorating Somali-Soviet relations. In the face of a Soviet arms buildup in Ethiopia and the cutoff of military spare parts deliveries to Somalia, Mogadiscio denied the Soviets access to naval and air facilities in Somalia. These included (a) Soviet-constructed petroleum storage depots, (b) a naval missile-handling facility, (c) a communications facility, (d) a drydock at Berbera for use of the Soviet Navy, as well as (e) military airfields, manned and used by the Soviets for long-range reconnaissance flights.

Military Relations

Encouraged by Arab promises of military and financial support, Mogadiscio cut all military ties with Moscow in November, and by the end of the year, the USSR had evacuated its 1,500-man military contingent and had dismantled and re-

moved the advanced equipment it had erected on Somali soil.

A number of Soviet military officers previously attached to Somali defense planning elements were transferred to Ethiopia, and about 600 Somali officer trainees were recalled from their studies in the USSR.

Until Moscow's courtship of Ethiopia late in 1976, Somalia ranked as Moscow's largest arms client in Black Africa and the first to conclude a friendship pact with the USSR; 2,400 of its personnel had been trained in the USSR, and its inventories included Soviet medium and light tanks, jet fighters, bombers, helicopters, and advanced air defense missile systems.

Somalia's long dependence on the Soviet Union for arms and training severely reduced its options in obtaining replacements of comparable weapons from new-found Arab and Western supporters. Major items such as tanks, heavy artillery, and aircraft were not available. Somalia was unable to sustain operations in the Ogaden against an adversary enjoying full Soviet support.

Economic Relations

The rupture in the Somali-Soviet military supply relationship did not affect their economic ties nearly so dramatically. First, the Soviet commitment was small (\$154 million extended over a 15-year period) of which only 60 percent had been drawn, and second, more than \$675 million of Arab loans has more than compensated for the loss of Soviet economic assistance.

Somalia had complained about Soviet assistance from the onset of the program in 1961. Most recently, Moscow's largest project, a dam and power station on the Giuba River, had come under fire from Somali officials because construction lagged behind schedule. Work on that project is now suspended, awaiting assistance from other donors. Mogadiscio is also expected to seek Western assistance for developing its fishing industry, which the Soviets had dominated since 1975, when Somalia granted the Soviet fleet

exclusive fishing rights in return for \$60 million in aid.

Communist China—always Mogadiscio's favorite economic aid donor because of its low-cost, efficient program—promised to increase its economic support to Somalia and to provide technicians for projects abandoned by the Soviets. Most of Peking's projects, which have been built under \$130 million in credits extended between 1963 and 1971, were nearing completion in 1977. A 30,000-seat stadium was opened, and the second section of the 970-kilometer Belet Uen - Burao road was completed.

Tanzania

The USSR provided its first development aid to Tanzania in 11 years, \$19 million for agricultural and training facilities. As for the \$20 million Soviet credit extended in 1966, \$12 million still has not been drawn.

Peking remains by far the largest donor of economic aid. Despite recurring reports last year that the PRC intended to reduce its economic program in Tanzania, the Chinese cut back their presence only in Zanzibar, which is phasing out Chinese aid. The Chinese-built Tan-Zam Railroad continued to operate below capacity because of management and scheduling problems that have slowed freight car turnaround in both Tanzania and Zambia. Nonetheless, the line has helped to ease congestion at the port of Dar es Salaam.

Other African Countries

The USSR undertook geological surveys in *Benin* under \$5 million of 1974 credits, while the Chinese made progress on a stadium and on agricultural and light industrial projects under \$44 million of credits.

Botswana's dealings with Communist countries have been confined to China. Peking has delivered small arms, ammunition, and anti-aircraft guns and a few Chinese military personnel (the only Communist military advisers in the country) accompanied the equipment. Botswana sought arms from China after Western countries

refused to equip its small new defense force, organized to police insurgent movements along its border with Rhodesia. Peking also sent a team to study agricultural projects under a 1976 economic agreement for \$3 million in assistance.

A \$20 million 1972 Chinese credit has been *Burundi's* only Communist development assistance. Construction picked up on the \$9.5 million Mugere River hydropower complex being built under the credit, but work lagged on the 90-kilometer Bujumbura-Rutovo road because of delayed deliveries and Burundi's reluctance to accept a large Chinese workforce. In May 1977, Romania agreed to extend agricultural assistance—Burundi's first from Eastern Europe—and established a joint company to prospect for minerals.

China enhanced its close relations with *Cameroon* by financing equipment and building materials for a hydropower complex and a cultural center being constructed under a 1973 agreement. Despite Moscow's position as Cameroon's number one Communist trading partner, Soviet economic assistance has been disappointing, and no work is under way.

Communist countries have been reluctant to give the *Central African Empire* (CAE) much aid because of the eccentric economic policies of the newly crowned Emperor Bokassa, who last year blew his country's foreign exchange reserves on a coronation ceremony. The USSR and China have largely confined their programs to technical assistance in education and public health. China has provided a few agricultural personnel and is studying assistance to road and bridge construction. Under agreements signed in 1976, Romania has established four joint companies with the CAE—two in the timber industry, one in agriculture, and one in mining.

China agreed to go ahead with a \$20 million stadium under its \$50 million economic aid commitment to *Chad*. Peking's program has been low profile and free of most of the frictions that have characterized the \$2 million Soviet effort.

In the *Congo*, Chinese technicians installed the first of four generators at the \$54 million Bouenza Dam and power plant, for which Peking has provided at least one-third of the financing. In October, Peking signed an agreement for expanded cooperation, which may result in aid for several light industrial plants in the areas served by the power plant.

Gabon, one of the smallest OPEC producers, has approached European Communist countries for new sources of financing for its internal development programs. Its ambitious plans cannot be realized from petroleum revenues alone, and Western lenders have expressed concern over Gabon's mounting liabilities. In 1977, after a year of negotiations, Romania offered to finance the Belinga-Booue section of the trans-Gabon railroad in exchange for iron ore. Gabon also resumed negotiations with the USSR, broken off in 1975, on Soviet assistance to road construction, fishing, and industrial development.

Gambian officials have become irritated with slow progress on agricultural projects under a 1975 \$17 million Chinese credit. Gambia has publicly criticized the quality of Chinese agricultural equipment, lack of spare parts, and friction between Chinese agricultural technicians and local farmers, largely because of language barriers. China also has delayed the start of construction on a stadium studied last year.

Plans to reinstate an estimated \$60 million in expired Soviet credits for new projects in *Ghana* faltered in 1977, and work progressed slowly on projects reactivated in 1976 (a prefabricated housing plant, a gold refinery, and an atomic reactor). Moscow sent \$1 million worth of food aid, but only Romania signed new contracts—for cooperation in mining, oil exploration, agriculture, and forestry development. As before, the Chinese supplied skilled labor for irrigation projects and experimental farming and were considering assistance for reestablishing cottage industries and constructing a caustic soda plant.

Guinea's President Toure is peeved at Moscow for not living up to its commitment to equip,

train, and resupply Guinea's armed forces. These were promised as payment for use of Guinean facilities (oil storage, airfield, and naval) to support Moscow's growing military involvement in southern Africa. Conakry has received less than \$40 million of the \$1.4 billion in Soviet arms that have poured into tropical Africa in the past five years.

Communist programs have receded in importance in the face of a warming of Guinean relations with the West and the advent of new OPEC commitments, which have bolstered Conakry's more moderate international policies. Arab countries have extended more than \$80 million in the past four years; projects now under study include mining and transportation projects.

Guinea nonetheless remains Moscow's largest economic aid recipient in sub-Saharan Africa. A January 1977 agreement extended Soviet bauxite exploration in several areas. This project and an oceanography school are now the only ongoing Soviet projects in Guinea.

Increased Western aid and the rising unpopularity of Soviet advisers have loosened *Guinea-Bissau's* close postindependence ties with Communist countries, which date from Communist military support to the liberation struggle. Guinea has tried to renounce a 10-year Soviet fisheries accord that calls for rental of Soviet trawlers for a joint Soviet-Guinean fishing company, the training of Guinean nationals, and construction of fish-processing facilities. In return, the USSR was given access to Guinea's rich fishing waters and harbor facilities. The Soviets apparently have not lived up to their side of the bargain to provide training and infrastructure assistance. Meanwhile, the Soviets are blamed for fish shortages in the once fully stocked Bissau markets. Western countries now have been invited to fish Guinean waters although the Soviet agreement is still in force. Despite these frictions, the USSR began bauxite prospecting and construction of diesel power plants under an \$11 million credit agreement. China, the first Communist country to offer economic aid after Guinea's independence,

worked quietly on agriculture and irrigation projects, trying to restore its political image, which had been impaired by support for the wrong side in the Angolan conflict.

The *Ivory Coast's* gradual opening of relations with Communist countries has affected mainly Romania. The two countries established a joint commission in 1977 to study Romanian assistance in mining, geology, energy, forestry and agriculture, and the petroleum industry.

Lesotho which has shunned Communist contacts that might offend South Africa, was considering diplomatic relations with North Korea and Cuba at yearend. Earlier in 1977, Lesotho had sent its first government-sponsored trainees to a Communist country—eight students to the USSR for civil air training.

Liberia's commitment to the West and to the free enterprise system has not been affected by its slowly expanding relations with Communist countries. Monrovia signed an economic agreement with China in February 1977—its first with a Communist country—at the same time that it established diplomatic relations with Peking and expelled Republic of China diplomats. At least 225 PRC technicians moved in to replace departing ROC personnel at a sugar plantation and refinery and rice cultivation projects. Romania has suggested joint ventures in fishing, forestry, car assembly, iron ore development, and petroleum to supplement the joint rubber-processing plant opened in 1976, a venture that has been operating at a loss.

Chinese relations with *Mauritius* remained cordial despite the small magnitude of project aid disbursed under a 1972 \$35 million credit agreement. In July, a Mauritanian delegation traveled to Peking to complete plans for constructing an airport, the largest project planned under the agreement.

China reinforced its links with *Niger* by signing protocols under \$51 million in credits provided in 1974 for agricultural projects, a cement plant, and possibly a stadium in Niamey.

A high point of the year in *Rwanda* was the opening of a Chinese-built \$16 million road from Kigali to Rusumo, on the Tanzanian border. The project, completed several months ahead of schedule, has won its builders wide respect and gratitude. Rwandan officials have petitioned the Chinese for further project assistance, now that most of the 1972 \$22 million line of credit has been disbursed.

A delegation from *Sao Tome and Principe* visited Peking in September to discuss Chinese agricultural assistance under a late 1975 economic agreement with the islands. No activity was noted under a similar accord signed with the USSR in 1976. Cuba delivered two fishing vessels to Sao Tome in 1977, apparently as grants, and promised aid to education and public health.

Poland completed a fishing wharf in *Senegal*, under a \$35 million credit for fisheries development that includes joint fishing operations out of the port of St. Louis. Poland is the only Communist country granted fishing rights within Senegal's 200-mile zone; a similar Soviet request has not been acted on. China, still Dakar's largest Communist donor, continued work on several agricultural projects under a \$50 million 1973 credit. Meanwhile, plans for a stadium remained stalled.

The new government of the *Seychelles* declined a Soviet proposal for fisheries assistance and a joint fishing venture and criticized the unauthorized presence of Soviet trawlers in its maritime zone.

China has been *Sierra Leone's* largest single aid source since 1971. Fast implementation and the high visibility of Chinese projects under a \$40 million credit have generated good will toward Peking. A \$9 million Chinese-built stadium neared completion in 1977; nine of 13 agricultural stations have been turned over to Sierra Leone; and a sugar plantation-refinery was opened in November. Other projects under way include a government office complex, a small hydroelectric power station, and prospecting for iron ore.

The USSR has come under fire for not fulfilling the terms of a fishing agreement signed in 1976, which calls for construction of harbor facilities, provision of trawlers, and training of local fishermen in return for fishing rights. Sierra Leone claims \$4 million of annual losses from Soviet fishing in its territorial waters.

Sudan, now a member of the coalition of conservative Arab states, expelled all Soviet military advisers in May as a protest against Soviet backing for Ethiopian- and Libyan-supported dissidents in Sudan. Despite Khartoum's plans to expand its sources of military supplies, Sudan still relies heavily on Soviet spare parts for the \$85 million worth of equipment it has already purchased from Moscow. Some of its needs were filled by Peking's \$7 million agreement to supply spare parts for armor and aircraft. The accord also included small arms for equipping a 10,000-man infantry force.

On completion of the 600-kilometer Wad Medani - Gedaref road in 1977, Peking accelerated activity on agricultural and transportation projects and promised more assistance to Sudan's inland fisheries and a textile plant.

Soviet-Sudanese political differences did not inhibit East European countries from providing new credits, their first in several years. East Germany extended \$29 million in aid and Poland \$33 million for equipment purchases by the Sudanese Electricity and Water Corporation; Czechoslovakia is to furnish prefabricated houses and machinery and equipment for various development projects under an old credit; and Romania, in a new trade agreement, allocated \$5 million of credits for building materials for a conference hall and textile plant now under way.

China agreed to construct an \$8 million stadium in *Upper Volta* and reiterated its commitment to build a \$17 million cement plant, both to be financed under a 1973 \$48 million credit.

Suspicious of Soviet involvement in the Shaba conflict produced additional strains in *Zaire's* relations with European Communist countries in

1977. Kinshasa avoided an outright break with the Soviets, although it suspended diplomatic relations with Cuba and East Germany. China, *Zaire's* closest Communist ally, airlifted small arms, anti-aircraft guns, and field artillery to *Zaire's* forces during the invasion. Peking also continued heavy support to agriculture and worked on a sports complex and conference hall in Kinshasa under 1973 and 1975 agreements. Nonetheless, Kinshasa retreated further from its brief flirtation with some of the more radical nationalization measures introduced after President Mobutu's trip to China in 1974.

East Asia

During 1977, Communist countries continued to pursue their political interests through an expansion of commercial ties with East Asia. Soviet overtures toward Indonesia, initiated in 1976, were set back by Indonesia's turndown of large Soviet credits for an alumina plant. East European countries made an unprecedented effort to reverse their progressively worsening trade balances with the region.

A \$140 million Czechoslovak offer to *Burma* for three projects in the motor vehicle field was the largest single credit ever offered to Rangoon. The credits would carry 2.5-percent interest and allow 13 years for repayment after a three-year grace period, far more liberal terms than those usually provided by East European countries. Czechoslovakia previously had extended \$15 million to *Burma* for buying trucks and erecting a tractor assembly plant, while assistance from other East European countries and the USSR has totaled \$27 million. Despite repeated rumors of Chinese plans to provide large amounts of new aid, trips by *Burma's* President to China apparently produced no new credits. China agreed to construct a rice mill, a textile plant, and a stadium and began work on a power plant; these projects are being financed under the old 1971 agreement.

China received its first trade mission from *Fiji* in October, as part of its effort to establish closer ties with small Pacific island nations.

Moscow's dramatic 1976 \$360 million offer to *Indonesia* for building a 600,000-ton alumina plant on Bintan Island apparently was turned down in 1977 because of Jakarta's concern that there would be an influx of large numbers of Soviet technicians. Indonesia now is trying to obtain funding from Arab countries. At yearend, Moscow awaited replies to other offers—two power plants and a tin-processing facility.

Other Communist countries tried to reverse the decline in their sales to Indonesia, which had cut deeply into their usual trade surplus with Jakarta. Bulgaria expressed interest in providing eight- to 12-year credits for suitable development projects.

Renewed Soviet and East European initiatives to expand their exports to *Malaysia* were designed to offset their \$250 million annual hard currency expenditures for natural rubber and tin. China, on the other hand, continued to run a large surplus in its trade with Malaysia because of consumer goods exports. Kuala Lumpur remained one of China's largest Third World hard currency customers despite the cooling of relations over Peking's failure to join Malaysia and other members in the International Tin Council.

Several East European countries posted commercial attaches to the *Philippines* for the first time in 1977, and Czechoslovakia signed its first trade agreement with Manila. In January, Manila announced sales of 450,000 tons of sugar to China and 600,000 tons to the USSR. By the end of August, shipments under these two contracts had generated a surplus of \$165 million in Manila's combined trade with these two countries. Some of the sugar shipped to China probably was bartered for a portion of the 900,000 tons (18,000 b/d) of Chinese crude oil shipped to the Philippines in 1977.

The USSR and China expanded commercial activity in *Singapore* during the year. Marissco—the joint Singaporean-Soviet company formed in 1975—broke ground for a \$5 million complex to process seafood from the Soviet fleet for world markets. The project, the largest of its kind in East Asia, will be completed

in two years. At the same time, the Soviet merchant and fishing fleets are expanding their already heavy use of Singapore's shipyard facilities. China also promised to study possible use of these facilities for ship repairs.

Thailand's new military government moved to expand commercial relations with Communist countries. The Foreign Ministry immediately approved proposals to sign government-to-government agreements with the USSR and East European countries, and Thai officials offered Peking sugar from surplus stocks.

Latin America

Summary

In addition to its general interest in exploiting Latin America as a source of food and raw materials, Moscow has cultivated Peru as a major client for sophisticated arms in the past three years. A campaign to sell a wide array of military equipment to other Latin American countries has borne no fruit, the Soviet-Cuban military partnership in Africa having created new concerns about Soviet intentions.

Communist countries, still trying to bring their trade with Latin American countries closer to balance, have offered large new credits and urged faster drawdowns on outstanding credits. Moscow bid on several billion dollars in power contracts in Brazil and Argentina, with whom Moscow ran a combined \$385 million trade deficit in 1977. It also signed \$200 million in contracts under 1975 credits with Colombia for the Alto Sinu hydropower project, the largest Moscow has yet undertaken in the region, and a \$30 million deal with Bolivia for mining equipment. The new Colombian agreement brings Soviet power equipment sales to Latin America to nearly \$500 million since 1970. East European countries provided \$78 million in new credits, mostly to the smaller countries in the region and encouraged the use of credits to finance Latin American imports. The USSR also has begun to use oil sales as a more effective and rapid means

of reducing its deficit. In 1977 these sales reduced the Soviet deficit with Brazil to a little less than \$140 million from the \$400 million level of earlier years.

All Communist countries continue to be hampered by Latin America's preference for traditional Western goods, and only \$525 million of the \$2.4 billion of Communist credits made available to Latin countries since 1958 have been drawn.

Argentina

Sharply increased Communist imports of Argentine grain and meat, in the face of stagnating exports, threw Communist trade balances with Argentina more deeply into the red in 1977. China failed to reduce its persistent deficit because of purchases of agricultural goods and because of its lack of sales potential in Argentina. Soviet and East European efforts to reduce their \$400 million deficits by expanding sales of industrial machinery and hydroelectric equipment also proved fruitless.

In power development, the major competitive area open to Moscow, Argentina's conservative military government showed some willingness to consider Soviet proposals on planned projects. Moscow now is preparing bids on (a) the \$2 billion Parana-Medio project; (b) a \$1 billion project at Corpus; and (c) the Yacyreta-Apipe hydropower scheme, which also will carry a \$1 billion price tag. In the meantime, the USSR continued work on \$175 million in power contracts already in hand, and assembly work proceeded on the first of 12 turbines at Salto Grande.

East European countries continued to push sales of machinery and equipment in an effort to reduce their trade deficits. The long-delayed ratification by Argentina of a number of Communist trade and credit agreements paved the way for Romanian and Polish offers of machinery and equipment for extractive industries. The offers were made under the \$100 million lines of credit extended by each country in 1974. Hungary also offered 120 port cranes under a \$50 million 1974 credit.

Brazil

Brazil retained its position as the Communist countries' number one trading partner in Latin America. The growing one-way character of the trade has led to aggressive Communist sales efforts and to Soviet pressure on Brazil to draw existing credits. Failure to redress the longstanding annual trade imbalance produced tensions that could threaten Brazil's future as an important Soviet and East European source of food and raw materials. Brazil, wishing to hold on to its lucrative Communist markets, established a special committee to reduce the trade imbalance with the East.

Czechoslovakia launched a vigorous sales effort, urging use of its 1976 \$100 million supplier credit, and signed a hard currency payments agreement to replace bilateral clearing arrangements. Prague offered Brazil a \$300 million power plant in exchange for iron ore and pressed Brazil to buy Czech machinery for a \$30 million tire plant and a cement plant, both now on the drawing boards. Hungary proposed joint ventures in aluminum, pharmaceuticals, and heavy equipment—including vehicles, cranes, and electrical equipment. Romania extended commercial credits in addition to the \$150 million long-term credits provided in 1975 for steelmaking equipment. Among the more successful sales overtures was Poland's equipment sale to Brazilian companies for developing coal reserves in Colombia.

In 1977 China negotiated its first long-term government-to-government trade agreement with Brazil.

Peru

Soviet Relations Depend on Arms Sales

Large new Soviet accords with Peru for modern weaponry and a continuing flow of military hardware helped consolidate Moscow's position with Lima's military government in 1977. Peru was in the position of asking Moscow to reschedule its rapidly expanding military debt service while taking delivery of additional arms.² Mean-

² The debt was rescheduled early in 1978, allowing a moratorium on principal payments through 1980.

while, Peru tried to improve relations with its neighbors and to reduce a payments crunch with assistance from international lending institutions.

Arms Transactions Continue High

Arms sales continued as the centerpiece of Moscow's policy toward Peru. In 1977 Peru took delivery of 36 SU-22 fighter/bombers, the most advanced aircraft yet delivered to a Latin American country. Other deliveries in 1977 included helicopters, transports, and tanks. These acquisitions are supporting Lima's push for military power status on the west coast of South America.

Rumors that more than 1,000 Soviet military technicians are stationed in Peru have not been substantiated. We estimate the number at 100. In addition, we estimate that the Soviets have trained more than 600 Peruvians in the USSR in maintenance and operation of equipment. Despite the training effort, Lima still lacks sufficient trained personnel to handle the sophisticated Soviet hardware. In addition, the Peruvians have had problems in supporting Soviet weapons systems because of inadequate supplies of spare parts and problems caused by climate and topography. The Soviets claim that Peruvians abuse the equipment and do not understand preventive maintenance concepts.

Economic Assistance

Even though the USSR has been eager to expand economic relations with Peru, Lima has not shown much interest in buying Soviet goods. Earlier plans to construct a steel plant at Nazca with Soviet aid and a machinery and equipment plant at Arequipa appear to have been shelved for the duration of Lima's financial crisis. Moscow's only economic aid to Peru is a \$25 million credit (extended in 1970) for the Paita fishing port, oil storage tanks, and preliminary work on the Olmos irrigation project. Most of the credit has been drawn.

Peru's austerity program, which restricts imports to essential items, is inhibiting the use of the \$255 million of other Communist credits

extended in 1969-74 to expand trade. Communist promotional efforts in 1977 to increase equipment sales to Peru sparked little interest in Lima, itself wrestling with serious payments problems.

Lima signed no major new accords with East European countries in 1977. Czech offers of credit for agriculture, mining, and petroleum industry assistance were still under discussion at yearend, and Poland failed to renew a \$40 million machinery and equipment credit that expired despite Warsaw's desire to expand exports to Peru. Earlier Romanian interest in financing the \$600 million Antamina copper project (for which it completed a feasibility study in 1977) cooled because of Romania's plans to develop its own low-grade copper resources.

Other Latin American Countries

Romania and *Barbados* established diplomatic relations, effective 1 September 1977.

Bolivian-Communist economic relations continued to focus on Bolivia's tin industry. We expect Soviet imports in 1978 to reach double the 1977 level as a result of a \$50 million December trade contract. Soviet support for building a tin-processing plant at Potosi (the world's largest) remains the most important Communist project in Bolivia. In 1977 approximately 100 Soviet technicians (the second largest Soviet contingent in Latin America) worked on the 320-ton plant, now in its third year of construction. Transportation and construction delays caused cost overruns at the plant, which have tripled the original foreign exchange cost estimates. Completion is now scheduled for 1978. Despite these problems, plans are going ahead for a second Soviet tin plant, and Bolivia contracted an additional \$30 million in mining equipment from the USSR in 1977 under an openended credit.

Romania extended its first credits to Bolivia—\$15 million for oil and gas industry equipment and East Germany also offered \$15 million to outfit hospitals and build grain silos. Poland completed deliveries for a \$4 million plate glass factory, and Hungary, which already has sold

hospital equipment to Boliva, offered to sell transport and communications equipment during the first meeting of a Bolivian-Hungarian commission in November.

Chile's diplomatic relations remain suspended with all Communist countries except China and Romania. Nonetheless, Chilean - East European trade increased after agreements were reached for settling debts incurred by the Allende government. According to official Chilean figures, Santiago paid Communist countries nearly \$25 million in 1977 on its long-term debt and \$115 million on short-term obligations.

As part of a drive to diversify its trade, *Colombia* expanded commercial relations with Communist countries by accepting a \$200 million Soviet bid for a hydropower project at Alto Sinu. The 1,000-MW plant, to be built under the 10-year 4.5- to 5-percent open-ended credit agreement signed in 1975, is scheduled for completion in the mid-1980s. During the year, Colombia authorized Romania's mineral-prospecting company to establish an office in Bogota under a 1974 agreement for participation in coal, phosphates, and petroleum development. Bogota and Romania also formed a joint petroleum drilling company early in 1977. East Germany, trying to capitalize on Colombia's more liberal trade policy, offered to set up a textile plant under credits provided in 1976.

Costa Rica's economic relations with Communist countries picked up in 1977, following the signing of new accords with the USSR and Romania. Even though Moscow did not act on its earlier offer for the \$700 million Boruca hydroelectric project, the USSR agreed to undertake mineral and oil prospecting. (A change in government that occurred early in 1978 could mean a reduced Soviet role.) Romania signed an agreement in April to initiate studies on low-grade Costa Rican bauxite deposits.

Despite continuing coolness in *Ecuador's* political relations with Communist countries and its refusal of Soviet economic and military aid offers, the military government increased commercial contacts with Eastern Europe in 1977.

Quito picked up a Hungarian credit offer for educational, medical, and agricultural equipment and an East German offer to barter educational equipment, vehicles, and chemicals for bananas and cocoa. Similar small pacts were signed with Czechoslovakia and Romania, and at yearend Quito was negotiating with Cuba to initiate formal trade relations.

Even though *Guatemala* has not established diplomatic relations with any Communist countries, it expanded commercial dealings with a number of them in 1977 and threatened to turn to Communist countries for military supplies if the West would not meet its requirements.

Guyana applied for association with the Council for Mutual Economic Assistance (CEMA) in 1977, joining Colombia and Jamaica among area countries making this overture. Georgetown also signed its first aid accord with the Soviet Union—a framework agreement for mineral, forestry, and agricultural development that sets the stage for future economic relations with the USSR. A protocol paved the way for a joint Soviet-Guyanese fishing venture. Moscow will train Guyanese personnel on Soviet trawlers, construct a deepwater port, and survey Guyana's marine resources. China and East Germany, the only Communist countries that had previously provided aid to Guyana, renewed and accelerated activity under their programs; East Germany extended \$20 million of additional credits, mostly for bauxite development, and agreed to build a vehicle repair shop and a vegetable oil plant under earlier credits. China initiated plans to start hospital construction in New Amsterdam under a \$26 million 1972 credit and allowed Guyana to substitute agricultural products and raw materials for consumer goods under their barter agreement.

Soviet and Hungarian agreements with *Jamaica* last year broadened Kingston's relations with Communist countries beyond the small 1974 and 1976 Chinese commitments. The Soviet agreement is intended to aid in the construction of 250,000-ton cement plant (estimated at \$30 million), geological surveys, and the setting

up of training centers for repair and maintenance of motor vehicles and agricultural and industrial machinery. Hungary's \$8 million in credits are to be divided equally between consumer goods and industrial products. By yearend Budapest had delivered about one-fourth of its commitment, and negotiations were under way for Hungarian sales of industrial and medical equipment, pharmaceuticals, and buses. No progress was noted on Budapest's earlier \$150 million offer to build an alumina plant.

For the most part, Communist project proposals for implementing recent accords with *Mexico* remain on the drawing boards. Mexico is reconsidering the use of Polish credits for a coal mine. A similar fate is expected for Soviet participation in Mexican mining, metallurgy, electric power, and agricultural development contemplated in the 1976 economic cooperation agreement. Mexico did accept a \$20 million East German credit for the steel industry and a \$15 million Hungarian equipment credit. East Germany and Mexico also agreed to a joint venture for producing precision instruments, reportedly East Germany's first such investment in a Third World country.

Panama began discussions in July to establish commercial and economic relations with the USSR that could include (a) establishment of a Soviet bank in Panama; (b) Soviet participation in constructing a hydroelectric plant; (c) annual Soviet sugar purchases of 50,000 tons of sugar, beginning in 1978. Chinese delegations, which arrived later in the year, concluded an agricultural technical assistance agreement and discussed possible trade relations. A branch office of the National Bank of Cuba was opened, mainly to process trade transactions through the Colon Free Zone.

Despite *Uruguay's* hard-line anti-Communist policies, Montevideo allowed the Soviets to station a military attache in the capital last year. Moscow continued its involvement in Uruguay's power industry as a supplier of equipment to the joint Argentine-Uruguayan Salto Grande hydroelectric project. Uruguay has a 40-percent share of the \$80 million, 10-year, 4-percent credit.

Hungary, the only other active Communist aid donor, delivered several diesel trains, its first delivery under a \$9 million contract.

Venezuelan efforts to expand commercial ties with Communist countries yielded few returns in 1977. A flurry of visits by East European economic officials resulted only in a general contract with Poland to develop coal and nonferrous metals. A trilateral petroleum deal entailing Soviet oil shipments to Venezuelan customers in Europe in return for Venezuelan deliveries to Cuba was not implemented, nor was there any action under the 1976 economic and technical cooperation agreement.

Middle East

Summary

In 1977, Moscow continued to focus on the Middle East, where its most important foreign economic and military programs were concentrated. The deep concern of other Arab leaders about Egyptian peace overtures opened new opportunities for Soviet diplomatic initiatives and brought the radical confrontation states into closer alliance with Moscow. Weapons orders by Syria and Iraq in 1977 confirmed the importance of their military supply relationship with the USSR. Moscow also posted its first sales in the lucrative Persian Gulf arms market—\$50 million worth of air defense equipment to Kuwait. One of the USSR's smaller Arab clients, South Yemen, assumed new importance toward the end of 1977 as Moscow sought expanded Red Sea air and naval facilities at Aden to replace facilities lost in Somalia.

Closer arms relations with Syria contrasted sharply with events in 1976 when Moscow had tried to manipulate the Syrian position by withholding arms. Syria has urgently requested more arms to expand and modernize its armed forces in the event of a war against Israel without Egyptian support.

Soviet commercial interests also moved into the foreground in 1977. Extensive Soviet economic deals with Iraq and Iran, initiated in 1976, were expanded in 1977; at yearend, the USSR

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was negotiating several billion dollars worth of development contracts with these two nations, its top Third World customers for civilian equipment. Moscow and Tehran were near agreement on Soviet participation in a \$3 billion gas pipeline being built from Kangan to the Soviet border as part of a 1977 multilateral deal with several West European countries. Iran also has been discussing Soviet assistance for two new hydro-power projects, a \$500 million aluminum plant, and expansion of highways, railroad, and port facilities.

In Iraq, the USSR moved to implement \$1 billion in contracts signed in 1976. Negotiations for building the Mosul Dam were completed, and the Soviets began to work on several power and irrigation projects, which together would add 5 million hectares of cultivable land and 3,000 MW to Iraq's power capacity.

Moscow's relations with Egypt—once the centerpiece of its Third World economic and military programs—sank to new lows in 1977. Apparently willing to lose what was left of the longstanding Soviet-Egyptian relationship, President Sadat embargoed cotton sales to both the USSR and Czechoslovakia in 1977 and declared a moratorium on military repayments to the USSR. Soviet-Egyptian trade sank to a five-year low.

Despite the decline in trade with Egypt, Soviet nonmilitary trade with the Middle East surpassed all previous levels in 1977, boosted by the new wealth of the oil producers and by expanded Soviet gas and oil imports from the region (more than one-half of Moscow's \$1.5 billion in imports from the Middle East). Soviet exports of \$1.6 billion were heavily weighted by \$575 million in equipment and other goods going to Iran, which became the most important Soviet market in the Third World.

During 1977, East European countries redoubled their efforts to exploit the well-heeled Middle East market for goods and services, while seeking to obtain long-term commitments for oil supplies. Iran sold its first oil to Poland and increased deliveries to Bulgaria and Hungary, although remaining cool to long-term barter

proposals. Iraq sold at least 150,000 b/d of crude oil to Eastern Europe and became the foremost Third World trading partner for East Germany and Hungary and the largest Third World buyer of Polish industrial equipment.

Egypt

Soviet Relations at Alltime Low

Sadat's surprise peace initiative toward Israel in November 1977 further reduced prospects that the USSR and Egypt would mend the serious rift in their 20-year relationship. His appearance before the Israeli parliament followed a stormy year during which he applied an embargo on cotton shipments to the USSR and Czechoslovakia, stopped military debt payments to the Soviets for 10 years and announced a cut in Cairo's annual economic aid repayments to the Soviet Union to only \$20 million annually. Moscow reacted in surprisingly mild fashion to Sadat's abrupt economic decisions; Kremlin fears of a separate Egyptian peace effort led the USSR to support the Steadfastness Front countries when they hastily convened a conference in Tripoli to condemn Sadat's actions.

Czech-Egyptian relations deteriorated as a consequence of Prague's identification with the Soviet arms embargo. Cairo's economic relations with other East European countries suffered only slight damage, even after Egypt closed Soviet and East European cultural centers in December.

The Military Relationship at a Standstill

Sadat's abrogation of the Soviet-Egyptian Friendship Treaty in 1976 had marked the final chapter in a series of actions that ended the Soviet-Egyptian \$4 billion military supply relationship.

The pinch is being felt in all Egyptian military services; its effects were intensified in spring 1977 when the last contingent of Soviet military technicians left Egypt. This ended a Soviet military presence that had totaled 14,000 men from 1970 until 1972, when Sadat expelled most Soviet military advisers.

The situation was also worsened because Egypt could not buy replacement equipment and spares from East European countries as it has in recent years. Evidence also mounted that Moscow was pressuring East Europeans not to deliver on previous agreements.

Debt Settlement Stalemated

The continued failure of Moscow and Cairo to agree on rescheduling Egypt's \$5 billion military and economic debt further strained the Soviet-Egyptian relationship. Moscow's refusal to consider Cairo's request for a 30- to 40-year repayment period after 10 years' grace finally goaded Sadat into declaring a unilateral 10-year moratorium on Egypt's military debt. Two months later, in November, Egypt's Cabinet announced that economic aid repayments to the USSR would be cut to about \$20 million annually.

Payments due on the economic and military debt had been handled in 1973-76 through Egypt's large trade surpluses with the USSR. Cotton had accounted for more than 25 percent of Egypt's \$435 million in exports to the USSR in 1976, and textiles and yarn made up an additional 18 percent.

Cairo expects to sell the raw cotton previously reserved for Communist customers to hard currency buyers at acceptable prices. It also is in the process of diverting textiles and yarn, along with other manufactures, to Western markets.

Czechoslovakia concluded a trade protocol for 1978 in November; Prague okayed the agreement despite Egypt's refusal to sell Prague cotton on any terms. The 1978 protocol calls for a \$20 million Egyptian trade surplus that will be used for debt settlement, about one-half of the 1977 payment.

Other Economic Relations Persist

Despite Cairo's provocative actions in canceling a Soviet contract for tankers with the Alexandria shipyard and rejecting Soviet participation in exploiting phosphates at Abu Tartur, Moscow continued to implement ongoing aid projects under \$360 million worth of credits still

outstanding in the \$1.4 billion Soviet program. About 1,000 Soviets were still working at Egyptian plants at yearend, notwithstanding Sadat's announced plan to expel Soviet economic personnel. Work neared completion on the fourth blast furnace at the Helwan steel complex, bringing annual capacity closer to the 1.5 million tons scheduled for the second stage. Expansion work was in full swing at the Nag Hammadi aluminum plant, where first-stage capacity (100,000 tons) was reached in 1977.

Several East European countries, notably East Germany and Romania, expanded economic relations with Egypt in 1977. The East Germans extended \$95 million in 10-year credits to finance electrification projects. The agreement, which raises the East German commitment to about \$230 million, was concluded during trade negotiations in October. At that time Egypt promised to continue cotton deliveries to East Germany under their clearing agreement. Romania signed a protocol for use of \$90 million of old aid in spurring agricultural development, building a cement plant and prefabricated housing plants, and doubling the capacity of a Romanian-built caustic soda plant in Alexandria. Bucharest also may be preparing to begin petroleum exploration in a concession area assigned in 1974.

China responded to Egypt's economic sanctions against the USSR by buying small amounts of cotton from the 1977 crop, presumably for hard currency. Earlier in the year, the two sides had signed a four-year trade agreement and a protocol calling for \$200 million of trade in 1977. Peking has not yet initiated work on the textile, pharmaceutical, and building materials projects announced in 1976; they were to have been constructed with credits extended in 1964.

Iran

Business Interests Stabilize Political Ties

In spite of the Shah's growing concern about Soviet activities in the Horn of Africa, Iran and the USSR maintained their upbeat commercial relationship of recent years in 1977 with large new agreements.

Moscow's Largest Nonmilitary Equipment Buyer

Iran signed new trade or economic agreements with most of its Communist partners in 1977. Already Moscow's largest Third World equipment buyer, Tehran was discussing further contracts that would run up to several billion dollars, including (a) a second trans-Iranian gas pipeline, with a total cost of \$3 billion; (b) a new seaport on the Caspian coast; (c) two new hydropower projects; (d) uranium development; (e) a \$500 million aluminum plant; and (f) expansion of highway, railroad, and port facilities.

In 1976 the USSR and Iran had signed contracts to triple the capacity at the Soviet-built Isfahan steel mill to 6 million tons a year and to develop additional coal and iron ore sources to support the expansion. Iranian press reports suggest that some of the equipment for these plants will carry deferred payment terms, although the full extent of Soviet assistance for the additional undertakings is not known. Moscow also began to install more than 2,000 MW of electrical capacity at Ahwaz and Isfahan, fueled by natural gas, and is continuing work on other aid projects. The contribution of the Soviet aid program to Iranian development accounts for 90 percent of Iran's coal, iron ore, and cast iron output and for 70 percent of Iran's steel capacity.

Soviet exports to Iran rose 50 percent in 1977. The \$575 million worth of Soviet exports were heavily weighted by shipments of machinery and equipment under recent contracts. Soviet imports also rose, largely because of higher natural gas prices. Soviet gas imports, which have reached \$200 million annually, have paid for a large share of Iran's increased machinery and equipment purchases from the USSR and for military equipment. Because gas sales are not large enough to finance the expanded level projected for Tehran's imports from the USSR, Iran may offer oil as repayment for the multibillion dollar projects.

Tehran's interest in financing projects in the Communist countries apparently has cooled. There was no action on a pulp and paper plant in the USSR, which Tehran had agreed to finance

in 1975, and Tehran has not followed its 1975 \$780 million worth of cash loans to Eastern Europe with additional aid.

Eastern Europe Seeks Oil Supplies

Having been told by Moscow not to count on additional Soviet oil, East European countries have been scrambling to arrange oil barter deals with Iran. Tehran has been reluctant, however, to commit itself to long-term barter contracts, and only the following small agreements were concluded in 1977:

- Bulgaria increased its oil purchases 50 percent (to 12,000 b/d), for which it paid hard currency.
- Poland signed its first contract to buy oil from Iran—7,000 b/d of crude.
- East Germany sold \$50 million worth of railcars, which probably will be paid for in oil.

Negotiations on Czechoslovakia's request for a long-term oil commitment were deferred until 1978, awaiting Iranian review of its requirements for Czech machinery and equipment. A new agreement for Polish construction of power, chemical, food, and mining facilities, as well as an assembly plant for agricultural aircraft, did not mention oil.

Romania has been Iran's largest East European oil customer and is more active than other East European countries in Iranian development programs. Bucharest is involved in port construction at Bandar Shahpur and recently won a \$1.5 billion contract for constructing a railroad from Bandar Abbas to Kerman.

Iraq

Communist Support Mounts

In 1977, record Soviet arms deliveries to Iraq, Moscow's heavier involvement in Iraqi development plans, and the shipment of \$500 million worth of Iraqi oil to the USSR attested to the mutual benefits of the long-established Soviet-Iraqi relationship.

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Military Transactions: Growth in Value and Sophistication

Moscow's big push in 1977 was on arms deliveries under the \$1 billion accord signed in 1976. Hardware deliveries rose by 20 percent over 1976, to \$600 million, one-fifth of total Soviet shipments to the Third World.

About 1,150 Soviet and East European military advisers were in Iraq during 1977 to support the heavy inflow of new Soviet equipment. Most of the technicians were assigned to Iraq's Army, which is being expanded. Most of the 300 Iraqi military personnel that went to the USSR for training were assigned to SAM familiarization courses.

Economic Relations: A Reflection of Iraq's Growing Oil Income

Baghdad's ability to pay cash for equipment and services has given Moscow stiff competition from Western suppliers in bidding for Iraqi development contracts. Reacting to the threat of competition, Moscow moved in 1977 to secure its participation in new projects and to implement the \$1 billion in aid and commercial contracts signed in 1976. Major project starts under these contracts included (a) the Haditha Dam and associated 500-MW power plant, (b) engineering studies for the al-Fallujah and Hindia Dams, (c) a canal to link the Tigris River to the Tharthar storage lake for diverting waters to the Euphrates River during periods of restricted flow, (d) reclamation of 40,000 hectares of land in connection with the Tharthar project, and (e) the Kirkuk irrigation canal. Negotiations also were completed in 1977 for building (a) the Mosul Dam, which will irrigate 1.6 million hectares of land and provide 500 MW of power; (b) the 240-MW Darbendikhan power plant; and (c) two cement plants, each with an annual capacity of 1 million tons.

Financial arrangements for these Soviet projects, which have a combined price tag of nearly \$3 billion, have not been announced. Most of this activity probably is under commercial contract and will be paid for in cash and oil.

Since 1957, Iraq has been the site of some of Moscow's most ambitious Third World projects. The \$700 million aid program gave Iraq a national oil industry; Soviet dam and power projects eventually will triple Iraq's installed electric capacity and will irrigate nearly 5 million hectares of land. The Nasiriya thermal plant, scheduled for completion in 1978, is the largest thermal plant in the Middle East, while the Mosul Dam will be one of the largest in the world. The USSR was considering taking over a \$40 million World Bank contract, which Iraq had abrogated, to construct grain silos. These would be in addition to existing Soviet commitments for 14 grain storage projects.

East European activities have paralleled Soviet efforts in Iraq. Their trade, largely in industrial plant and equipment, is approaching the \$1 billion mark annually. In 1977, at least 150,000 b/d of Iraqi crude oil flowed to Eastern Europe on commercial account and as repayment for aid. A minimum of 2,300 East European personnel were employed on commercial and aid projects during the year, with most working in the oil sector or on irrigation projects.

Czechoslovakia began work on a \$24 million contract to double capacity at the Basra oil refinery to 3.5 million tons annually. Romania prepared to start construction of a petroleum production well while a Bulgarian-Iraqi joint commission recommended further collaboration in agriculture, food processing, oil prospecting, and water and land development.

Progress on other East European development work was slow. Hungary received a new contract for petroleum drilling in South Rumaylah following the completion of nine wells. Hungary also submitted proposals to exchange additional petroleum development work in Iraq for oil; its present five-year agreement (1977-81) allows it to buy up to 20,000 b/d of crude. Poland geared up for work on three irrigation projects, probably under a \$100 million credit agreement. Warsaw also began implementation of Iraq's first iron and steel plant under a joint contract with a French company.

Syria

Return to a Close Soviet Relationship

The Soviet-Syrian relationship was revitalized in 1977 notwithstanding President Assad's continued rejection of a long-term friendship treaty with the USSR. Syrian support for Moscow's role in the Middle East and opposition by Damascus to Egyptian and US peace initiatives helped repair the relationship, which had deteriorated in mid-1976 in the aftermath of Syria's intervention in Lebanon.

Economic Aid May Increase

President Assad's visit to Moscow in April brought agreement to speed up Soviet projects under construction. A long list of new projects was discussed for which the Soviets agreed to accept oil as repayment. A new framework agreement was signed in 1977 to expand economic cooperation even further.

In 1977 the Euphrates Dam, Moscow's show project in Syria, moved rapidly toward completion of the first stage with the arrival of the last three turbines for the 800-MW power plant. The \$2 billion project, which has received \$185 million of Soviet equipment under credits, will produce much of Syria's electric power when it reaches capacity operation in 1978. Eventually it also will add 1 million hectares of irrigated land. The Soviets began surveys in 1977 on an associated dam at al-Khabir and on the 14,000-hectare Meskene irrigation project.

Soviet technicians also expanded petroleum exploration under a \$45 million development protocol signed in 1976, through which the USSR hopes to raise Syrian output to 11 million tons (220,000 b/d); the present level is about 10 million tons a year (200,000 b/d). The USSR has developed all of Syria's petroleum production facilities and receives about 500,000 tons of oil a year (10,000 b/d) from Syrian fields.

East European contractors are expected to play a major role in Syria's comprehensive water resource development plans, which are being drawn up with the aid of Soviet planners and

encompass one-fourth of all Syrian territory. East European countries (notably Bulgaria) already have been involved in reclamation related to the Euphrates Dam.

Syria, the largest LDC recipient of East European assistance after Egypt, has more than \$800 million of economic aid commitments from the countries of Eastern Europe. These outstrip Soviet pledges by \$285 million. Romania's \$390 million of pledges make it by far the most important donor in Eastern Europe; Bucharest has 3,000 specialists in Syria, employed in oil development, geological prospecting, phosphate development, agriculture, and transportation. Despite disagreements over construction and financing schedules, the 6-million-ton (120,000-b/d) petroleum refinery at Baniyas and the 450,000-ton superphosphate complex at Homs—Romania's largest projects in the Third World—are scheduled for completion in 1978.

Czechoslovakia offered a 300-MW power plant to Syria in 1977 and began deliveries of equipment for a \$100 million tire plant. East Germany signed \$51 million of contracts for rural electrification, started work on a grain silo, and apparently bid on a railroad construction project.

Turkey

Reports from the meeting of a joint Soviet-Turkish committee late in December suggest that the original \$600 million to \$700 million in Soviet aid to be provided under a 1975 framework agreement has been raised to \$1.2 billion. New projects mentioned for Soviet financing include (a) an iron ore plant at Hasan Celebi, (b) a 4-million-ton refinery on the Black Sea, (c) a steel industry training center at Iskenderun, (d) a dam and hydropower plant, (e) a hydrogen peroxide plant, and (f) a pesticides plant. The two sides also agreed to go ahead with feasibility studies for expanding the Iskenderun steel plant from its present 1 million tons to 6 million tons, to double the capacity of the Aliaga refinery to 10 million tons (200,000 b/d) annually, and to construct a powerline from the USSR for the

import of 1 billion kWh of electricity annually (equivalent to the output of a 150-MW power plant). The powerline follows an earlier Soviet agreement to supply power to Turkey to alleviate energy shortages caused by mechanical failures at existing facilities and the lag in completing new power plants. At the same time, planning will be accelerated for constructing two thermal power plants under Soviet credits. Moscow also will provide assistance for expanding the Seyde-sehir aluminum plant to 400,000 tons of annual capacity. East European countries also were willing to assist Turkey in solving its power problems:

- Czechoslovakia offered thermal plants with an installed capacity of 2,000 MW.
- Poland signed a \$250 million contract for constructing and equipping a 420-MW power station, possibly on deferred payments.
- Hungary signed its first cooperation agreement with Turkey, along with a \$46 million contract for power plant equipment.

Among East European countries, Czechoslovakia led the way in economic initiatives in Turkey with an agreement in principle to provide up to \$1 billion in supplier-type credits under a framework agreement signed in 1976. Projects mentioned in addition to the power facilities include a machine tool plant and a lignite-fired fertilizer plant. While the terms of the agreement were not announced, the \$38 million contract for the machine tool plant allowed 10 years for repayment.

Other Middle Eastern Countries

Bulgaria, East Germany, and Poland signed their first economic agreements with *Jordan*, which provided for their participation in Amman's current five-year plan (1976-80). Under earlier general agreements, Hungary agreed to furnish assistance for agricultural, power, and port projects, and the USSR signed a \$13 million contract for rural electrification.

Kuwait's \$50 million missile purchase from the USSR in April marked Moscow's first penetration of the military market in the conservative

Persian Gulf states. Initial shipments arrived in Kuwait late in July.

Kuwait, also seeking to improve its nonaligned image in the economic sphere, signed a long-term economic cooperation agreement with China. Peking probably agreed to provide equipment and services for land reclamation, studied earlier by a Chinese technical delegation. Hungary, one of the most active Communist contractors in Kuwait, won a \$28 million commercial bid to install 10 power stations. This follows two years of active Hungarian bidding on construction projects and previous contracts for transformers, buses, and a vehicle assembly plant. Hungary and Kuwait also are negotiating a trade agreement to barter oil for Hungarian industrial products.

Negotiations on Kuwait's largest Communist deal—a petrochemical complex in Romania—limped to the end of a second year. Kuwait would provide 49 percent of the financing for the \$1 billion project and sell Romania 160,000 b/d of crude oil for the facility.

At yearend, *South Yemen* still had not granted Moscow's request for unlimited use of airport, port, and naval base facilities at Aden. Earlier in the year, the USSR had concluded a \$6 million contract under a 1972 line of credit for runway construction and improvements at the airport. In the Horn conflict, South Yemen had given the Soviets use of air and sea facilities for transferring equipment and personnel and had provided Soviet equipment from its own inventories. Soviet influence in South Yemen has grown through the 10-year military relationship.

The USSR will provide 10,000 b/d of crude oil to Aden's only refinery, which supplies the Soviet fleet in the Red Sea and Indian Ocean with petroleum products. Despite poor progress on economic aid projects, such as the Aden power plant, more Soviet assistance for oil exploration, fisheries, and agricultural development was promised South Yemen.

China, whose \$80 million economic development program has had more economic results than Moscow's effort, completed surfacing of a 610-kilometer road from Ma'in to Mahfad under

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a 1972 agreement. The new road opens up areas previously inaccessible to vehicle traffic. Chinese technicians also began work on a fish-processing complex in Aden.

South Asia

Summary

South Asian countries, with whom the USSR had forged its earliest economic ties in the Third World, continue among Moscow's leading economic and military aid clients. For more than 20 years India and Afghanistan have relied on Moscow for equipment and technology for their development efforts as well as large-scale support for their military establishments.

In 1977, the USSR provided the new Indian Government with New Delhi's first major Soviet economic development credit in more than a decade, together with a military package. The \$340 million in economic assistance carried the most favorable terms the USSR has ever offered India and pushed total Communist economic aid commitments to India to \$2.7 billion.

The effect of Peking's \$1 billion economic and military program in Pakistan—China's largest in the Third World—could be eroded with Islamabad's turn to the West for military supplies. For the time being, Pakistan's suspicions of Soviet ties with Afghanistan and India, as well as strong pro-Chinese sentiment among Pakistan's ruling elite, should preserve China's political influence. Bangladesh received its first Chinese economic assistance since independence, as well as Chinese MIG aircraft as a gift. The military relationship with Dacca began in 1976, when China provided spares for Soviet equipment that was inoperable because of lagging Soviet spares deliveries. China and India signed their first trade agreement in more than two decades, and Peking made low-level overtures toward normalizing diplomatic relations.

Afghanistan

Moscow's First Aid Client

In the 23 years since Moscow's first aid commitment to Afghanistan, the Soviet presence has

become pervasive. Despite Kabul's desire to associate itself with nonaligned countries, the USSR continues as Afghanistan's major source of economic and military assistance, an important inspiration for cultural and educational development programs, and its principal trading partner. Moscow's deep interest in Afghanistan stems from the realities of geopolitics, namely Afghanistan's location on the Soviet border and its nearness to two areas of Soviet interest, the Indian subcontinent and the Middle East.

Soviet security interests have prompted a liberal aid policy unique to Afghanistan:

- Grants comprise a larger share of Soviet aid to Afghanistan than to any other Third World country.
- Repayment terms for credits are exceptionally liberal.
- Debts have been rescheduled frequently.
- Moscow provides commodities under credit to cover most local economic project costs, a concession rarely extended to other Soviet aid recipients.

A Soviet-Built Military Establishment

Since 1956, the Soviets have supplied 95 percent of Afghanistan's military goods. Deliveries totaling more than \$600 million have included fighter aircraft, medium tanks, surface-to-air missiles, helicopters, and armored vehicles.

Moscow continues to bear almost complete responsibility for support and maintenance of Afghan weapons systems despite more than two decades of Soviet technical assistance and training. The number of Soviet military personnel in Afghanistan has not changed since 1975-76 when 35 Russians were present to carry out maintenance, assembly, and training functions. In addition, Afghans were being trained in the USSR at the end of 1977, bringing the number trained since 1956 to 3,700.

Moscow: The Dominant Economic Partner

Despite US assistance of almost \$500 million and Afghanistan's recent success in attracting about \$900 million of OPEC pledges (only \$65

million of which has been disbursed), the USSR continues as Kabul's single most important source of economic aid and its principal trading partner. A \$425 million credit, extended in 1975 for Kabul's current Seven-Year Plan (21 March 1976 - 20 March 1983), accounts for one-third of the Soviet \$1.3 billion commitment to Kabul and is Moscow's largest single commitment to Afghanistan.

In 1977, the USSR allocated \$60 million from its 1975 agreement for commodities to finance local costs of a number of projects now under study. Work is expected to begin soon on a gas desulfurization plant, power and irrigation projects, and several bakeries under the \$425 million credit. Moscow also agreed in 1977 to build a \$12 million hospital complex, a project that the United States had turned down.

The Soviet program—on which Moscow has already delivered \$740 million of aid—has provided about one-half of the import requirements for projects under Afghanistan's four five-year plans. Two-thirds of Afghanistan's roads and electric power capacity have been built with this assistance. The USSR has constructed major airfields, developed an extensive power transmission network, and put some 40,000 hectares of land into cultivation. Moscow also has built several small industrial plants and developed Afghanistan's natural gas industry, which now provides the USSR almost 3 billion cubic meters of gas a year through a Soviet-built pipeline. According to Soviet figures, Soviet-built plants accounted for 25 percent of Afghanistan's industrial output in 1976-77.

No diminution of the Soviet economic presence is likely in the near future. The 1,300 Soviet technicians are presently employed in mineral and oil and gas exploration; fertilizer production; and power, irrigation, and transportation projects. We expect that additional Soviet technical specialists will be requested as work progresses on two power projects and as a \$600 million copper smelting complex, now on the drawing boards, gets under way.

Bangladesh

The PRC provided its first economic aid to Bangladesh since independence—some \$50 mil-

lion of credits for flood control and irrigation, textile plants, and a 20,000-ton fertilizer plant for which engineering studies are already under way. August contracts for electrical and agricultural equipment probably come under the agreement. China also provided 10,000 tons of wheat under credit in 1977. China's previous aid to Bangladesh (when it was the eastern wing of Pakistan) was \$11 million for an ordnance plant at Dacca and commodities.

The \$260 million Soviet program introduced since Bangladesh independence has focused on the development of electric power, gas, and oil output. Deliveries for the Ghorosal power plant have been finished, and the electrical machinery plant at Chittagong is nearing completion. Further gas prospecting will be initiated soon with late-model Soviet drilling equipment under a new agreement. In contrast, projects under the 1975 \$48 million line of credit have not been initiated, and drawdowns on Soviet credits have been sluggish. In fact, wheat shipments totaling 80,000 tons to the USSR—representing two installments on the 1973 Soviet wheat loan—created a net resource outflow in 1977.

East European activity last year was confined to East German and Hungarian contracts, each for \$10 million of railway equipment under existing credits.

Bangladesh has relied increasingly on non-Communist donors for most of its economic aid. In 1976, for example, disbursements from Western countries and multilateral agencies exceeded \$825 million. This compares with average annual Communist flows of \$15 million, mostly from the USSR.

India

Reaffirming the Indo-Soviet Friendship Treaty

Prime Minister Desai has recognized that Indian interests would be best served through close ties with the USSR despite his desire to move his country back to a nonaligned position. The military supply connection with the USSR has become the keystone in the Indo-Soviet relationship. Since the early 1960s India has bought almost \$3 billion of Soviet hardware and military manufacturing facilities. In the past few

years Moscow has expanded the scale and sophistication of weapons it supplies India. This, together with Moscow's rapid responses to weapons requests and Soviet reliability as an arms supplier, has created a close relationship that India finds difficult to break off, even though New Delhi is attempting to diversify suppliers.

Economic Relations Upgraded

The appointment of new higher level officials to the Indo-Soviet joint economic commission in September signaled Soviet and Indian interest in extending economic collaboration. The upgrading followed the extension of \$340 million of new Soviet credits to New Delhi in May on the most favorable repayment terms the USSR has ever offered India (20-year amortization after a three-year grace period at 2.5-percent interest). Discussions of project assistance are already under way and include aid to the Jodhpur alumina complex on India's east coast, a \$350 million project for which Delhi has long sought Soviet aid. About \$160 million of new credits would be used for construction, India repaying Moscow with alumina from the plant.

About \$70 million of \$460 million of aid still not drawn from old credits was also tentatively allocated for improving the technology in India's coal and steel industries; a December 1977 protocol called for Soviet technical assistance to help increase output at existing coal and iron mines. The protocol also called for possible development of the Singrauli, Raniganji, and Jayant mines, all of which has been under discussion for the past two years. Cooperation was further extended in protocols for (a) expanding capacity at the Soviet-built Bokaro steel mill, (b) \$5 million worth of equipment to help develop copper mining, and (c) two training schools for the petroleum industry.

India and the USSR also are proceeding with plans to use Indian equipment for Soviet-built projects in third countries. Moscow hopes the arrangement will (a) boost Indian output in Soviet-built plants, which now operate below capacity, (b) relieve periodic strains on Soviet producers, and (c) eventually lead to integrating some Indian production into the world socialist economy. New Delhi already has delivered coke

oven batteries to a Soviet-built steel plant in Bulgaria; similar equipment will go to Egypt in 1978 for the Helwan plant.

Soviet-Indian commercial ties were broadened by a four-year agreement in 1976 to barter 36.5 million barrels of Soviet-owned crude oil for Indian steel and other products. Soviet-Indian trade in 1978 is expected to surpass the \$1 billion 1977 level by almost \$200 million because of early payment of a large part of the 1.5 million tons of wheat still owed on the 1973 Soviet wheat loan.

East European countries followed Moscow's lead in 1977 by expanding their assistance for developing India's public sector. Hungary agreed in June to more than double the capacity of the Hungarian-built aluminum plant at Korba to 220,000 tons annually. Budapest also began prospecting in a petroleum concession area in Himachal Pradesh and signed smaller contracts to supply equipment for four clothing factories, whose cost will be repaid in output from the plants. Warsaw offered fishing and cargo ships and agricultural equipment and is considering the import of new industrial items from India. Romania discussed expanded cooperation in petrochemistry, fertilizer production, and on-shore and offshore petroleum drilling. At the same time, Bucharest worked on correcting faulty design of the Romanian-built Haldia refinery, where lubricating oil production is running at less than one-fourth of capacity.

Most East European countries also have discussed third-country ventures with New Delhi, similar to those under way with Moscow. Poland may be nearing agreement on Indian-Polish cooperation in constructing sugar mills in the Persian Gulf states, where India has built up a large contracting business.

Pakistan

Pakistan views China as its most dependable supporter among the major powers and as an effective counterweight to Soviet pressures. Peking's close relationship with Pakistan springs from a \$1 billion assistance program, which has made Islamabad China's largest Third World recipient of both economic and military assistance. Even though the USSR has provided more

economic aid, three-fifths of China's assistance is provided as outright grants, whereas all Soviet aid must be repaid. Moscow has had to contend with Pakistani suspicions of the close Soviet ties with Afghanistan and India, as well as strong pro-Chinese and pro-Western biases among Pakistan's ruling elite.

Static Economic Relations

Pakistan has traditionally received more economic assistance from non-Communist than from Communist countries. Recent large allocations from OPEC nations have accentuated the dominance of non-Communist countries in Pakistan's economic development; in 1977, Communist aid disbursements comprised only 5 percent of Islamabad's total aid receipts.

Among the Communist aid programs, the \$570 million Chinese economic assistance program has ranked second to Moscow's in money terms because of large Soviet credits for a steel mill. On the other hand, China's technical presence has outstripped Moscow's, with more than 20,000 Chinese laborers working on China's most important project in Pakistan—the Karakoram highway that links Pakistan with China through the Himalayan town of Gilgit. The road, which is being built at an estimated cost of \$200 million to the Chinese, was nearing completion at yearend 1977 and work continued on textile mills, a stadium, and a fertilizer plant. In December, Chinese geologists announced the discovery of iron ore reserves sufficient to supply the two small iron and steel plants Peking plans to build under a 1970 credit.

Despite Pakistan's close relationship with the PRC and its suspicions of Soviet intentions, Islamabad has recognized the constraints imposed on China's foreign aid capabilities by its own lack of development. In an important policy shift in 1971, Islamabad turned to Moscow for assistance in building the steel mill at Karachi, involving \$425 million of credits, which Peking could not provide. By yearend 1977, about one-

third of the equipment for the 1.1-million-ton plant had been delivered, and the 1980-81 scheduled date for full production at the complex appeared reasonable. In December, Pakistan announced plans for signing purchase contracts with Free World coal and iron ore suppliers for firing the first blast furnace in 1978.

East European countries displayed a more active interest in Pakistani development projects in 1977:

- Romania allocated \$22 million in credits for a cement plant, probably under its \$56 million 1973 credit agreement, and completed expansion of the Karachi refinery.
- Poland offered to set up a tractor assembly plant, following the rescheduling of Pakistan's small debt.
- East Germany completed a 25,000-spindle cotton textile mill under a 1974 contract.

Other South Asian Countries

Soviet consideration of assistance for several light industrial projects in *Nepal* came to naught last year, and only an \$800,000 gift for road-building machinery was extended. Work had been completed on all Soviet projects in 1973, and no new projects were initiated. Despite continuing difficulties with local subcontractors, Peking finished the \$3.3 million ring road in March; work has not begun on the \$80 million Pokhara-Surkhet road, which China promised in 1976.

Communist initiatives toward *Sri Lanka* fell off in 1977, as Colombo tried to work out financial problems with IMF assistance. China and the USSR, however, maintained their operations at irrigation and hydropower sites, and China signed its sixth five-year trade and payments agreement. A \$160 million trade protocol for 1978 with China incorporated the traditional rice-rubber barter arrangement at recent levels (200,000 tons of Chinese rice for 49,000 tons of Sri Lankan rubber).

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