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DIRECTORATE OF INTELLIGENCE

Policy

*Soviet Foreign Aid Loses Momentum*

Special Report  
WEEKLY REVIEW

1970  
status of  
Soviet  
trade

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NO 450

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## SOVIET FOREIGN AID LOSES MOMENTUM

Foreign aid is not high on the current list of Soviet priorities. Pressures resulting from a poorly performing economy as well as attention demanded by events on the China border, Vietnam, SALT, and the Middle East all divert attention from foreign-aid programs. As a matter of prestige, ongoing economic aid programs are being fulfilled, but the days of handing out large showcase credits solely for their political impact are over. The Soviets have found military aid, with its relatively rapid payoff, a more effective foreign-policy tool than economic aid. Although aid to non-Communist countries does not exert any noticeable drag on the Soviet economy, Moscow probably views its total outlays to the free world and to the USSR's Communist clients with as little enthusiasm as major Western aid donor countries view their aid expenditures.

### INTRODUCTION

Moscow's expenditures on foreign aid last year dropped to an estimated \$1.8 billion from the \$2 billion per year level reached in 1967-68. Reduced military aid to North Vietnam and completion of the resupply of military equipment that the Arab countries lost during the war with Israel accounted for most of the decline. This year, however, the total may be boosted by increases in economic aid to North Vietnam and by deliveries of air-defense equipment to Egypt.

Soviet economic aid deliveries to non-Communist countries have averaged about \$300 million annually in recent years, while military deliveries have totaled some \$350 million. Aid to Communist countries is not as well catalogued, but Cuba and North Vietnam have received most of the more than \$1 billion spent. Balance-of-payments assistance to Cuba alone amounted to \$400 million last year in addition to some \$90 million in sugar-export subsidies.

The USSR's commitments to fellow Communists and the need Moscow feels to bolster its leadership role allow little latitude for changing aid relationships with the Communist world.

In the free world, however, Moscow now is more selective and tough-minded about extending new aid. The Soviet stand against the recommendation of the United Nations Conference on Trade and Development that developed countries allocate one percent of their gross national product to development aid suggests that Moscow's leaders are content with a low-keyed program. The gross outflow of Soviet aid to the less developed countries comes to less than one tenth of one percent of the USSR's national output and is matched by medium and long-term credits provided Russia by the developed West.

The lack of dynamism in the program is particularly obvious in Moscow's failure to exploit recent opportunities to use foreign aid to enhance its status with the new revolutionary juntas in Peru and Bolivia, as well as with the Suharto government in Indonesia. The USSR, however, has extended new aid for projects that promise to be of mutual benefit, such as the development of a national petroleum industry in Iraq and of bauxite ore in Guinea.

The slowdown in the Soviet aid offensive in the non-Communist world cannot be attributed to the economic costs of the program. Economic and military aid drawings, together, have been on

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the order of almost \$700 million a year during the past four years, but annual repayments for past Soviet deliveries have been rising rapidly and last year reached an estimated \$300 million.

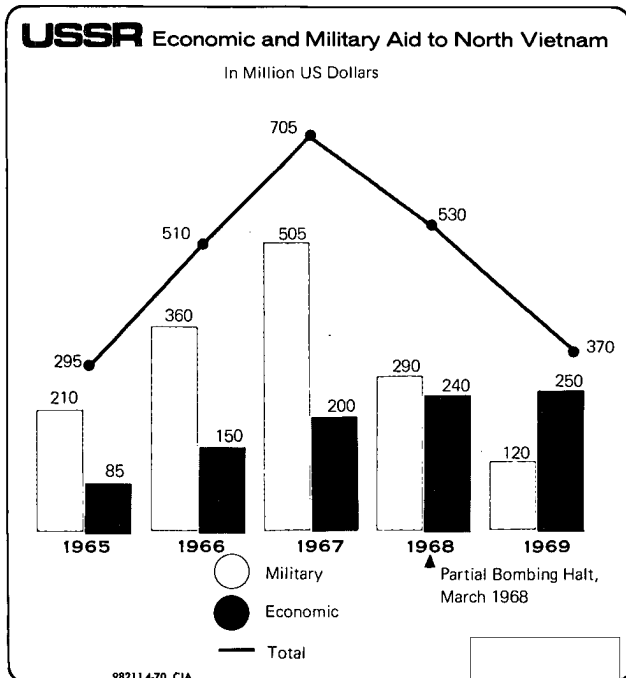
The lack of significant new aid initiatives to non-Communist countries in recent years probably reflects the Soviet assessment that the political yields from aid are quite limited. It conveys no guarantee of continuing influence, as Soviet experience in Indonesia, Ghana, and Guinea has shown, and it sometimes leads to unwanted involvement in differences between two client states, as in the Iran-Iraq and the India-Pakistan disputes.

#### AID TO COMMUNIST COUNTRIES

Moscow remains the primary source of military and economic assistance to its Communist allies. Soviet economic aid to North Vietnam

continues its slow rise. Last year it totaled about \$250 million, while military assistance fell off to \$120 million. This pattern of reduced military deliveries and expanded economic aid has prevailed since the partial bombing halt in 1968.

The bulk of the \$250 million in economic aid supplied to Hanoi consisted of foodstuffs, petroleum, transportation equipment, and other goods to meet North Vietnam's short-range economic needs. Some of the aid, however, consisted of small industrial and agricultural projects designed to help rehabilitate the economy. Some bomb-damage repair work to heavy industrial facilities took place and work continued on several Soviet-built power plants, including a large power plant at Thac Ba. Soviet technicians also assisted in repairing bulk petroleum facilities at Haiphong and Hanoi and continued to expand Haiphong harbor. No new, large-scale industrial projects were undertaken during the year.



Military aid continued to fall and last year totaled only 25 percent of the peak 1967 deliveries. The decline reflected the country's reduced need for air-defense ammunition and missiles, which made up the bulk of Soviet military aid during the period of US bombing.

Moscow continues to carry a heavy burden of economic support for Cuba, which in large part consists of funding Havana's chronic trade imbalance. Last year this deficit amounted to an estimated \$400 million. The USSR also provided \$90 million in sugar-export subsidies in 1969. This year the trade deficit will be sharply reduced and perhaps eliminated by increases in sugar exports to the USSR from Cuba's large harvest, but the sugar subsidy will, of course, rise. Slow progress continues on Soviet aid projects, which include the construction of a large fertilizer plant and a steel mill, as well as renovation and expansion of the Cuban sugar-milling industry. Although no

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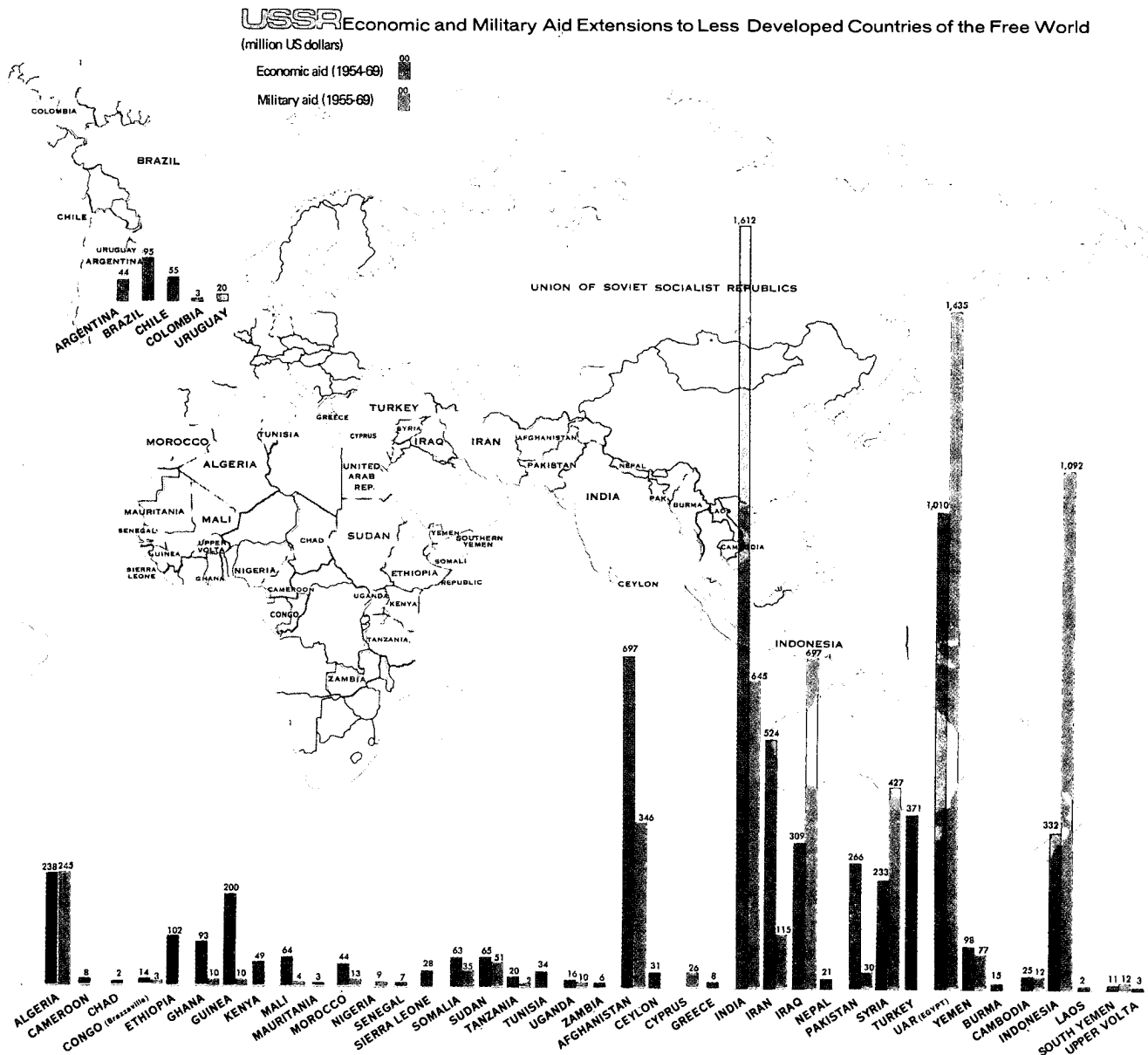
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major new projects have been undertaken recently, Moscow agreed in January to move forward on the construction of a ground station for telephone, telegraph, and television communications between the two countries via satellite. This project was first announced in 1966.

Soviet military shipments, which resumed in January 1969 after almost a year's hiatus, are believed to have consisted of equipment to maintain Cuba's defensive capabilities. Photography shows an increase in January in the number of SA-2 missile canisters at two storage sites, indicating that at least a portion of Cuba's SAMs are being retired and probably replaced. In addition, over 170 new 130-mm. artillery pieces have been identified in overhead photography since their introduction in 1969.

Mongolia received generous Soviet aid last year under Moscow's earlier commitment to provide over \$1 billion in economic assistance for its five-year plan (1966-70). The size of this commitment reflects the importance Moscow attaches to ensuring the active support of Mongolia in the Sino-Soviet dispute. Soviet industrial equipment continued to be channeled into Darhan, which Moscow is converting into the country's first industrial complex. Other assistance went to agricultural projects, particularly the construction of livestock feeding and shelter stations.

Soviet economic assistance to North Korea was resumed on a small scale in 1968 and, despite Pyongyang's entreaties, continued at the same low level last year. Moscow may have provided between \$30 and \$40 million worth of aid to Pyongyang during the year. Deliveries consisted largely of machinery and equipment for a power plant and an iron and steel plant, which were originally called for in a 1961 aid agreement. The Soviets also remained North Korea's primary

source of military aid, supplying naval craft and additional ground forces equipment, including radar defense equipment.

The USSR is estimated to have spent at least \$35 million in hard currency support last year to restore order to Bulgaria's trade with the West. Another \$35 million is expected to be spent this year. The USSR extended no long-term aid to Czechoslovakia following the Soviet-led invasion in 1968, but some aid may be forthcoming this year. Some type of short-term Soviet economic assistance for the Czechoslovak economy might also be necessary. Bulgaria, Hungary, and Yugoslavia are still drawing down previously extended Soviet economic credits. The unused portion of these credits is estimated at about \$900 million, of which the Bulgarian share is about \$700 million.

## AID TO NONCOMMUNIST COUNTRIES

### The Middle East

Military aid activity continues to be the most dynamic part of the Soviet aid program in the Middle East. Some 3,000 Soviet military technicians and advisers were present in Egypt in 1969, by far the largest Soviet military advisory contingent in any of the less developed countries. Although the USSR emphasized training rather than large-scale rearming of Arab forces, it did provide modern Soviet military equipment, principally to Egypt, Syria, and Iraq. This aid probably has maintained inventories at about the level obtaining prior to the June 1967 Arab-Israeli war. Soviet deliveries of SU-7 and MIG-21 jet fighters to Egypt initially brought the ratio of supersonic to total aircraft above the prewar level. The lack of combat qualified Egyptian pilots, however, continued to limit the effectiveness of the Egyptian Air Force.

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**USSR MILITARY EQUIPMENT DELIVERED TO  
LESS DEVELOPED COUNTRIES  
OF THE FREE WORLD\*  
(1955 - present)**

**Land Armaments**

Heavy, medium, and light tanks	5,700
Armored personnel carriers	5,200
Artillery	8,500

**Naval Ships**

Destroyers	22
Submarines	31
Motor torpedo and missile boats	149
Other naval craft	268

**Aircraft**

Medium and light jet bombers	298
Jet fighters	1,925
Heavy transports	93
Other aircraft	1,460

**Missiles**

Surface-to-air missile battalions	75
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*\*A small quantity of East European equipment is included.*

The failure of Egyptian air defense forces to stop increased Israeli air attacks deep inside Egypt apparently prompted Nasir to visit Moscow in January, when he was promised additional Soviet military aid. To bolster Egypt's crumbling air defense, the Soviets began to deliver and install the SA-3 surface-to-air missile system, which is capable of intercepting low-flying aircraft, as early as late February. The SA-3 system heretofore has been deployed only in the USSR and Eastern Europe.

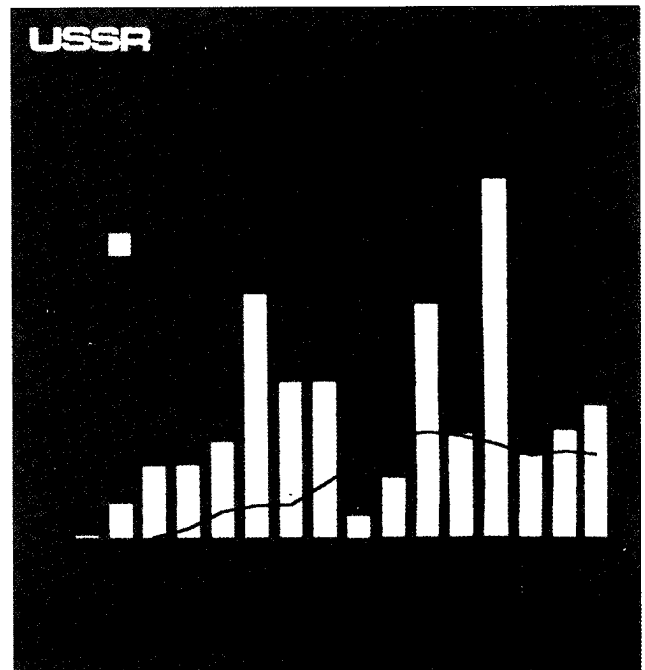
In order to provide rapidly an effective operational system in Egypt, a large influx of Soviet personnel is taking place to man the SA-3s. Most of this equipment has been brought in by

sea, but the Soviets also airlifted military cargoes to Egypt. Other equipment, such as some type of antiaircraft artillery, probably is being brought into Egypt to augment the SA-3 system, particularly to bolster the capabilities of the air defense system at lower altitudes.

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To maintain their pre-eminent position in the Middle East, the Soviets also have continued to supply military aid to Syria despite political differences resulting partly from changes within the Syrian Government. The Syrians chronically complain about the amount and types of military equipment provided, but the first deliveries last year of SA-2 surface-to-air missiles under a 1968 contract were welcomed. Damascus, however, reduced the number of Soviet military advisers by one half during 1969.

Soviet arms deliveries to Iraq continued on a substantial scale in 1969. Agreements worth an estimated \$45 million were concluded, and

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deliveries were highlighted by the arrival of 18 SU-7 fighter bombers, 10 MI-8 helicopters and two T-43 - class fleet minesweepers. Jordan's inability to counter Israeli air raids over its territory also led King Husayn to inquire for the first time about the availability of Soviet military equipment.

Moscow also used military aid offers to firm up relations with the new revolutionary regime in Sudan. At least a dozen MIG-21s plus a few medium transports and helicopters were delivered last year following the renegotiation and probable expansion of a 1968 arms pact worked out with the previous government. As many as 200 Soviet military advisers are believed to be in the country installing an air defense system that includes SA-2 missiles. The small Soviet arms aid program to Southern Yemen maintained in 1969 emphasized the training of a large number of Southern Yemeni aviation and naval personnel in the USSR. The Soviets also moved rapidly to make general offers of military assistance to the new revolutionary regime in Libya, but that regime has remained aloof thus far.

The USSR also is a major source of economic assistance for Middle Eastern states. Despite preoccupation with military affairs in Egypt, the USSR is moving ahead on several projects included under credits extended in previous years. The foreign-exchange costs of an aluminum complex, a phosphoric complex, and a ferro-silicon plant will be over \$100 million. Soviet experts arrived early this year to work on the phosphorous industry. Soviet oil prospecting operations in the Western Desert also were accelerated under a mid-1969 agreement, although Western oil companies are the prime movers in developing the Egyptian oil industry.

The Soviet Union made its first notable foray into the Iraqi oil industry last year when it

agreed to supply equipment and provide technicians for developing a national oil industry there. One credit of nearly \$67 million will be used for the exploitation of the Rumaila and Ratawi oilfields and for a pipeline from the oilfields to the port of Fao. This credit is to be repaid in Iraqi oil. Under another agreement, \$72 million worth of equipment and technical assistance is being provided for the development of petroleum resources in the al-Halfayah area. Some equipment has been shipped and several experts have been dispatched to make surveys in anticipation of drilling for oil and laying the pipeline.

During 1969, the USSR agreed to provide new assistance to several other Middle East countries. In February, it granted \$10.6 million in credit to Southern Yemen, probably to be used in part for land reclamation and for improvement of roads and airfields. Jordan may be reconsidering Soviet proposals to provide technicians for oil and mineral exploration and to assist in establishing technical schools. Talks on implementing the Soviet-Jordanian economic and technical assistance agreement were scheduled to be held last December. In Syria construction is under way on the Soviet-aided Euphrates Dam. Also in late 1969, Soviet experts arrived to prepare a comprehensive plan for Syrian oil production.

Following the coup in Sudan, President Numayri visited Moscow and received Soviet commitments for trade and economic assistance. Moscow agreed, subject to the results of a feasibility study, to provide machinery for the Rahad irrigation project, which also had been under discussion with the World Bank, and to supply geological research laboratories. Soviet experts are to help in improving cotton production and to advise on ways to make greater use of Sudanese railways. In early 1970, twelve Soviet railway experts arrived in Khartoum.

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USSR-Iran economic relations continued to grow, and progress was made on several projects. The gas pipeline may be completed by mid-1970, six months ahead of schedule. A dam being constructed on the Aras River may also go into operation this year. Work is continuing on the steel mill at Isfahan, a major construction project. The Russians also will soon assist in the reconstruction and electrification of the Jolfa-Tabriz railroad.

Turkey's dissatisfaction with the progress of Soviet projects may have been assuaged somewhat by Soviet agreement last October to almost double a credit of \$200 million extended in 1967. The increase, which was provided for in the original aid agreement, will be used to construct a steel mill, considered by the Turks the most important of five projects included in the original credit. The other projects are an oil refinery, a sulfuric acid plant, an aluminum plant, and a fiber board plant. Contracts for all the plants now have been signed and construction has begun on the aluminum plant, the oil refinery, and the sulfuric acid plant.

#### Africa

The Soviet aid effort in Africa—apparently by tacit mutual agreement—has leveled off. Only ten percent of new Soviet aid extended to non-Communist countries in the past five years has gone to Africa. This small share in part reflects the very slow rate at which these countries have drawn down credits previously extended. In part it also reflects a mutual lack of enthusiasm for closer aid ties.

A credit of over \$90 million was recently extended to Guinea for the development of the Kindia bauxite deposits, apparently to procure bauxite for the USSR and Eastern Europe. Annual exports of \$20 million worth of bauxite

will be used in part to pay Guinea's debts to Communist countries. The USSR also is to rehabilitate a railroad to move ore from Kindia to the port at Conakry.

The USSR has made new economic contacts in two African countries—the Central African Republic and Mauritius. A delegation from the Central African Republic went to Moscow in mid-December 1969, signed the country's first trade agreement with the USSR, and discussed economic aid, but no agreement was signed. In August, the USSR agreed to aid the fishing industry in Mauritius in return for access to Port Louis for emergency repair and refueling for Soviet fishing vessels.

The USSR has agreed to engage in geological prospecting and mineral exploration in several countries. In Sierra Leone, the Russians offered to conduct geological surveys. Prospecting for gold and diamonds in Senegal is expected to be financed by the remainder of a credit extended in 1965 for the purchase of tuna-fishing boats. About 80 geological experts reportedly will arrive in Tanzania sometime this year.

The USSR may be able to reap some benefit from the good will earned in Nigeria, where it was the foremost supplier of military equipment during hostilities with Biafra. The USSR reiterated its offer to do a survey of coal and iron deposits, probably in anticipation of constructing an iron and steel complex. This project had been agreed to in 1968, but it was postponed by the war. Four geologists spent about a month in mid-1969 investigating potential sites.

Soviet economic relations with the Maghreb states have appeared to deteriorate during the past year despite visits by President Podgorny to both Algeria and Morocco. The Soviet aid program in Algeria produced little. A joint commission for economic, scientific, and technical

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cooperation established a year ago held its first meeting in October. It produced only a draft agreement on scientific and technical cooperation and an aide-memoire on results of the technical committee's discussions. Many of the projects under the agreement made in the mid-1960s are still only in the early stages of construction.

No new Soviet economic commitments were made in negotiations with Morocco but, as in Algeria, a joint commission for economic, scientific, and technical cooperation was set up to facilitate implementation of the aid program. Some progress was made toward the construction of several dams and power plants. Soviet geologists arrived in late 1969 to work at the Bou Azzer cobalt deposits. In Tunisia, the USSR appears to be phasing out its aid programs. Most of the projects under the 1961 agreement have been completed, and Soviet experts are leaving the country.

In Ethiopia, after doing a feasibility study, the Soviets are willing to expand and modernize the Assab oil refinery originally built by them. For the Soviet-built cement plant at Diamou in Mali, the USSR offered \$800,000 to cover start-up costs. The USSR also agreed to provide \$8 million in equipment and technical services for a cotton spinning mill in Uganda under a 1964 line of credit.

Although Moscow dispatched a sizable economic delegation to Somalia in December, two months after the coup, no announcement has been made of any new economic commitments. The delegation was expected to discuss both debt rescheduling and the lack of progress at several Soviet projects, including two state farms.

#### South and Southeast Asia

New aid initiatives also have been lacking in Asia. The only Soviet aid extended to a South

Asian country last year involved a \$20 million credit to Pakistan to finance additional oil exploration. Soviet projects in Pakistan under earlier agreements, however, made little progress. Moscow turned down a request to finance construction of a proposed steel mill at Kalabagh on the basis of a Soviet feasibility study completed in mid-1969. Another Soviet study completed during the year recommended that the proposed construction of a nuclear power plant in East Pakistan be delayed until 1976.

Soviet-aided construction in India still is lagging in part because of that country's continued economic problems. New Delhi's reluctance to move ahead rapidly on investment programs has put all Soviet projects behind schedule, including the Bokaro steel mill, which in recent years has accounted for the bulk of drawings on Soviet credits. Moscow continued to resist Indian efforts to use Soviet credits earmarked for heavy industry to finance imports of Soviet fertilizer, petroleum, and other needed commodities.

Premier Kosygin's visit to Afghanistan in May highlighted the completion of a polytechnic institute and a land reclamation project, both financed by Moscow. Aid deliveries for other Afghan projects declined from the relatively high levels of recent years, and little was accomplished in implementing Soviet projects under \$127-million worth of credits extended in 1968.

There were no dramatic developments in Soviet military assistance to the subcontinent although the Soviet defense minister visited both India and Pakistan last year. India continues to receive all types of military equipment, but recent emphasis has been on naval equipment. In 1969 New Delhi received two F-class submarines and the third of five Petya-class escort vessels. It also signed a contract for eight Osa-class missile patrol boats and other naval equipment valued at an

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estimated \$33 million. Negotiations probably were concluded between the two countries for the production and assembly by India of an improved version of the MIG-21 jet fighter. India also received 18 SU-7 fighter bombers under previous agreements.

Strains in Moscow's relations with the new military government in Pakistan apparently are causing the Soviets to delay implementing outstanding military agreements there. Although the USSR made an initial delivery of some 60 medium tanks earlier in the year, contracts for additional tanks and other equipment under a 1968 agreement remain unfulfilled. The Soviets did complete an early warning radar installation in Dacca begun early in 1969 and delivered additional helicopters ordered under a commercial contract. Afghanistan last year received the first three SU-7s of at least a squadron expected to be delivered this year after a number of Afghan pilots currently receiving flight training in the Soviet Union return home.

Soviet economic aid programs in Southeast Asia were moribund in 1969. The only new aid to this area since 1966 involved a \$1.7-million credit extension to Burma for the rehabilitation of a tin and tungsten mine. Projects under earlier agreements were either never begun or now have been completed. A Soviet economic delegation that visited Indonesia in the fall and a subsequent visit to Moscow this year by Djakarta's foreign minister made little headway in rescheduling Indonesia's \$800-million economic and military debt to the USSR. Talks did confirm, however, Moscow's willingness to resume aid to Indonesia once the debt issue is settled. Less than half of a \$10-million cash purchase agreement of 1967 for military spare parts has been utilized.

Toward the end of the year, Moscow professed a renewed interest in the activity of the UN

Commission for Asia and the Far East (ECAFE). This more positive position on Asian cooperation probably is motivated in large part by Soviet concern over China's future role in Asia. In the past, Moscow has used ECAFE primarily as a propaganda forum to denounce the US, and Soviet aid offers to the organization have been infrequent and generally unacceptable. Despite renewed interest, Moscow probably still believes that it can best advance its own interest through cooperation with Asian states at times of its own choosing.

#### Latin America

The USSR is applying stringent criteria in negotiations to expand its economic contacts in Latin America. Moscow increasingly is weighing the short-term political impact of its foreign economic dealings in this area against long-term costs and prospects. This is clearly evident in the USSR's negotiations with Bolivia and Peru.

The Peruvians have been actively seeking offers of Soviet financial and technical assistance, particularly for a major irrigation project in northern Peru. Although Soviet technicians reportedly have examined the feasibility of the project as well as completed surveys of certain Peruvian mineral resources, Soviet negotiators have avoided any blanket offers of assistance. Negotiations are under way for a \$30-million credit to Peru to finance the purchase of agricultural machinery for agrarian reform, but no final contract has yet been signed. This offer probably involves the shorter repayment terms typical of Soviet trade credits—ten years or less—and not the extension of long-term aid credits. The USSR also has shown some interest in Peru's growing copper industry and may have offered to construct a copper refinery, but no details of such a proposal are known.

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The Soviets have yet to extend any economic aid to the new Bolivian Government, and have reacted with caution to Bolivian economic proposals. The USSR refused to pay cash for Bolivian oil last November—following the nationalization of the Bolivian Gulf Oil Company—but offered instead a barter deal involving Soviet machinery. At present, Moscow does not appear prepared to offer any more than scientific and technical aid to Bolivia's extractive industries. A Soviet technical team visited the country last year to examine mining procedures, particularly in the tin industry.

Soviet efforts to broaden economic ties substantially through use of trade credits continue to meet with little success. A \$20-million credit agreement, which has been under intermittent discussion since 1967, was signed last year with Uruguay. The terms of the export credit were not spelled out, but Uruguay will probably purchase Soviet capital goods to be paid for largely with traditional Uruguayan exports over eight years at three-percent interest.

Economic relations have failed to expand under similar credit arrangements that Moscow has with Chile and Brazil. Despite talks held by a

Soviet economic delegation that visited Santiago last year on the utilization of some \$55-million worth of Soviet credits extended in 1967, trade has not prospered, and the credit has hardly been touched. Brazil and the USSR agreed to extend for five years the time limit of the 1966 Soviet credit that was due to expire last August to cover 85 percent of the value of some \$100-million worth of industrial equipment. It is unlikely that any significant deals will be generated under this credit. The private sector, for which the bulk of these trade credits are made available, remains skeptical about the quality of Soviet goods, the compatibility of Soviet equipment with that obtained from Western companies, and the availability of servicing and spare parts.

Other credit offers to move Soviet goods into Latin America were made last year. The Soviets continue to be active in offering civilian transport aircraft on attractive credit terms, but no sales have as yet been made. Since making its first sizable purchase of coffee from Costa Rica in 1968, the USSR has been urging Costa Rica to purchase Soviet products, and reportedly offered a credit to improve the port of Limon on Costa Rica's Caribbean coast. [redacted]

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