

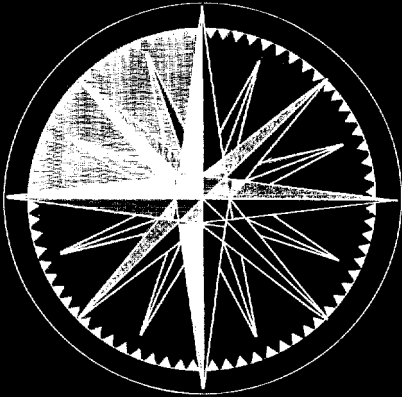
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CURRENT INTELLIGENCE WEEKLY
SPECIAL REPORT

SOVIET FOREIGN AID

CENTRAL INTELLIGENCE AGENCY
DIRECTORATE OF INTELLIGENCE

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SOVIET FOREIGN AID

Soviet aid is dispensed abroad to support other Communist countries, to bolster the Soviet presence in the uncommitted world, and to exploit anti-Western nationalism. The USSR's status as a great power compels it to contribute to the demands for external assistance both within and outside the Communist world. Moscow, however, has modified its early expectations that foreign aid would ensure the recipients' allegiance to the USSR. In free world underdeveloped countries, Soviet aid has lost much of its mystique and has proved to be no panacea for economic ills--but it is still sought for what help it can provide. In these areas, the USSR is largely motivated by a desire to dilute the Western presence. The USSR is tailoring its program to participate in, but to avoid assuming complete responsibility for, a country's development, as occurred in Cuba.

Over half of Russia's exports to underdeveloped countries represent deliveries of machinery and equipment, a large part of which is on credit. Repayments of credits extended to East European countries will provide the USSR with imported plant and equipment it needs to fulfill its current five-year plan. This self-supporting feature of foreign aid reduces considerably the internal impact of current aid deliveries.

The Current Program

With its attention focused on Vietnam and on its own economic problems, the USSR has taken few new initiatives on foreign aid during recent months. North Vietnam has required growing assistance, but economic assistance programs for Bulgaria, Cuba, and Yugoslavia are being implemented on schedule. Although most new aid extended to underdeveloped countries represents long-standing commitments, Soviet flexibility has permitted it to exploit changing political situations. Since the reaffirmation by the Kosygin-

Brezhnev regime of basic Soviet aid, which had been marked by a lull during the 1962 review of the foreign aid program, the USSR has engaged in aid extensions averaging nearly \$2 billion a year.

The USSR has become increasingly selective on the conditions of aid offered to the underdeveloped countries. Soviet performance at UNCTAD makes it clear that the USSR frequently feels a kinship with major Western donors on the economics if not the politics of foreign aid, and is careful not to associate itself too

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closely with the underdeveloped countries' claims for special privileges.

Middle East

Egypt, which has not always been a passive client, stands out as a major Soviet success. The Western role there has been limited and while Cairo faces serious economic problems with which the USSR must be concerned, the problems are those of growth, not stagnation. Soviet aid has established and maintains Egypt as a military power, and contributes to economic growth as well. The Aswan Dam, the most notable Soviet aid project to date, will make a major contribution to Egypt's economic future and is expected to be completed in 1968, ahead of schedule.

Its prominence as a supplier of assistance causes Moscow some apprehension, however. Unwise Egyptian economic policies, motivated by domestic political considerations, have required Moscow to revise its carefully worked out program. Moscow, like the West, presumably is seriously concerned about the unfavorable economic implications of the September change in economic leadership in Egypt [redacted]

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[redacted] Furthermore, Cairo's strained relations with the US constantly threaten the USSR with the prospect of being asked to assume the burden of significant grain deliveries.

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During the past year, the USSR has found opportunities to

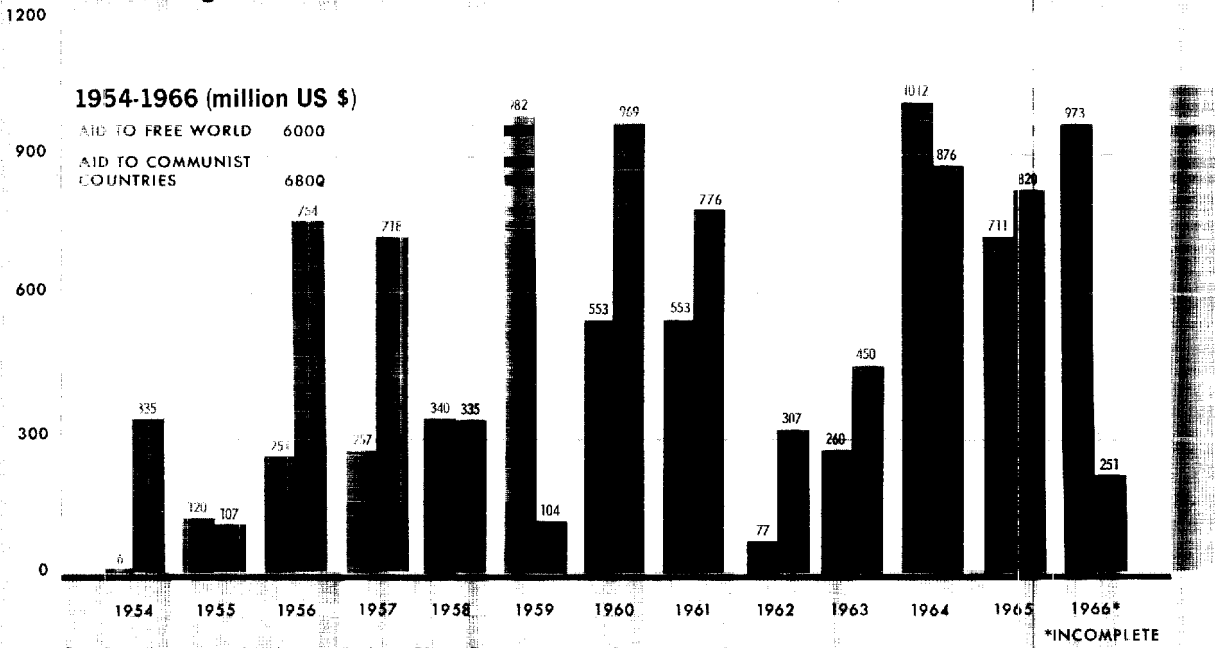
achieve new successes in the Middle East. The history of stormy relations with Syria probably is not at an end, but a new economic --and possibly a new military-- aid agreement has been concluded, thus augmenting the Soviet presence. Economic aid for the construction of a major dam on the Euphrates River may lead to significant Soviet participation in development of the Euphrates River water system. An arrangement similar to that with Syria has been concluded with Iran, and together these may lead finally to an agreement by these two and Turkey on the division of water resources.

After great persistence, the USSR has achieved minor commercial contracts for economic development projects in Jordan and is submitting offers on programs put up for bids. An expansion of economic contact with Turkey also is under way. These contacts are growing slowly, however; over a year now has been spent discussing them.

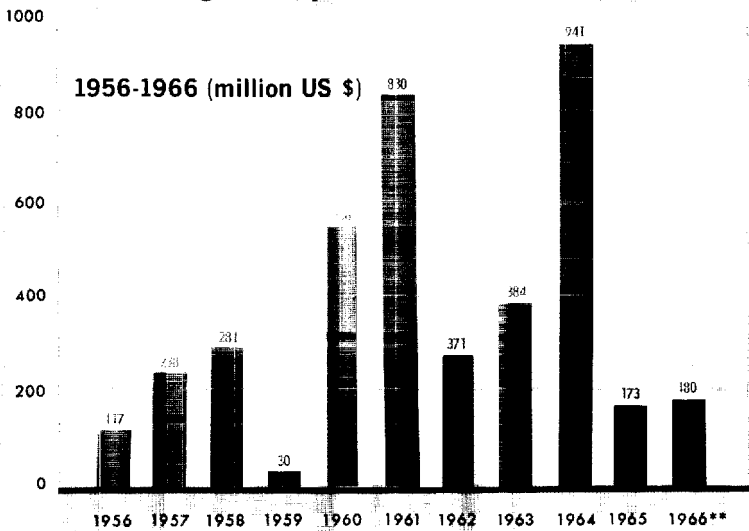
Quickening Iranian interest in expanding its relations with Communist countries led to an important agreement on the future construction of a steel plant by the USSR. Repayment terms, calling for natural gas deliveries to Russia for a number of years, will lead to further growth in economic relations. Both Iran and Russia are proceeding cautiously, however, as was evident in negotiations on Iran's first move to acquire Soviet military equipment. The USSR maintained a reserved position and gave no sign that it saw the Iranian

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Soviet Foreign Economic Aid



Soviet Foreign Military Aid to Non-Communist Countries*



* INSUFFICIENT DATA AVAILABLE TO INCLUDE MILITARY AID TO COMMUNIST COUNTRIES

** INCOMPLETE

Soviet Foreign Aid Extended in 1966 (million US \$)

ALGERIA	1
BRAZIL	100
CUBA	91
INDIA	30
NORTH KOREA	10
NORTH VIETNAM	10
PAKISTAN	84
SOMALIA	5
SYRIA	133
TANZANIA	20
YUGOSLAVIA	60
SUB TOTAL	424
MILITARY	
GUINEA	2
YEMEN	78
SUB TOTAL	80
GRAND TOTAL	1404

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feelers as an opportunity for a quick foreign-policy coup. Moscow did not want to offer military aid to Iran if the offer was to be used primarily for leverage to get more military aid from the US.

Waning Western influence in the Middle East cannot be ascribed to Soviet foreign aid, but the availability of Russian economic support and military assistance has provided leverage and widened the area of action of local governments.

Africa

In the early 1960s, the USSR made a drive to exploit the anti-Westernism of newly independent African states, but they have not succumbed to the Soviet effort. The USSR's refusal to provide cash to meet local costs of development has complicated its negotiations in Africa. Moscow is reviewing its aid, however, in order to improve the content of the programs and to find ways of raising domestic funds for development projects.

A notable feature of Moscow's recent aid activity in Africa has been the effort to disassociate it completely from Chinese operations. Although there have never been any joint Sino-Soviet aid ventures, the similarity of their ultimate goals originally masked China's stress on violent change as a condition for economic improvement.

In East Africa, Kenya has canceled some and suspended other Soviet projects as inadequate,

while the USSR, fearing further discredit to its foreign aid, maintained stringent criteria in its offers to Tanzania. Tanzania, after more than a year of deliberation and attempts to find less realistic donors, has finally accepted some Soviet aid.

In Somalia, Moscow's image has suffered from an ill-founded and poorly administered program that was designed some years ago and was intended more for immediate impact than for lasting effect. It achieved little, however, and showed such poor prospects that the USSR cut it back this year. The part that remains will cost more than the Soviets originally estimated. The USSR is trying to salvage some influence from its efforts and a Somali delegation has just returned from Moscow where additional aid has been promised.

Local political unrest has hampered Soviet programs in West Africa. The overthrow of Nkrumah brought Soviet projects in Ghana to a standstill, while radical African leaders in Congo (Brazzaville) have demanded the expulsion of Soviet military personnel. The USSR has long had its program in Mali under review. It has increased military aid, but is reluctant to meet Malian economic demands which it regards as unsound and as setting undesirable precedents.

Moscow, having apparently chalked its setbacks up to experience, still seeks to move in and erode Western influence where it can. Lately, it has been working on an aid proposal for

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Morocco which may be unveiled during King Hassan's visit to Russia next month. Earlier attempts to establish relations with Morocco were not successful.

Soviet willingness to ride out a change in political tides is evident in its relations with Algeria. Dismayed at the overthrow of Ben Bella, one of its most ardent supporters, the USSR nevertheless has maintained military and economic agreements with the new government. A large influx of Soviet arms this year has made Algeria's armed forces the best equipped in Africa except for Egypt and the Republic of South Africa. Economic assistance has moved more slowly, but the USSR has gone ahead with implementing the agreements.

Asia

The USSR has promised India, seeking commitments for its forthcoming five-year plan, sizable new aid, although about 40 percent of the billion dollars to be provided will come from funds made available earlier but as yet unspent. Soviet assistance to India, for the most part, has been allocated for industrial installations in the public sector, but recently Moscow agreed to extend medium-term credits to support increased import requirements that had been generated by the development projects. The USSR also is supplying equipment and machinery for military plants. India eventually will produce MIG-21 jet fighters under license and will obtain the equipment to produce missiles for these planes.

New Delhi now ranks as the third largest recipient of Soviet military materiel. Over \$600 million worth of arms and equipment is on order. This program has moved rapidly during the past year or two, and Soviet equipment--originally limited to air transport and air defense equipment--now pervades the entire military establishment. The ground forces receive large amounts of armor, and several naval craft including submarines are on order for the navy.

In Pakistan, Soviet concern with Chinese inroads and the opportunities offered by friction between Rawalpindi and the West has led to stepped-up economic activity by Russia. By offering additional aid for the current five-year plan, Moscow has tried to encourage Pakistan to follow a course more independent of both the West and China. The USSR is sensitive to the reverberations that would result in India from military deliveries to Pakistan.

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In Indonesia the Soviet Union faces another test of its forbearance. An active military aid program and a marginal economic aid program were under way at the time of the anti-Communist coup last year. Since then, both programs have come to a virtual stop. The USSR, along with Western creditors, is expected to agree to payments relief for Indonesia, but Moscow may insist that Djakarta follow a more pragmatic approach

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to economic development. It is expected that Moscow will agree to continue supplying adequate equipment and spare parts to maintain Indonesia's military establishment. The USSR has invested over \$1 billion in arms aid and presumably wants to maintain the relationship this has fostered with Indonesia, despite Djakarta's crackdown on its Communists.

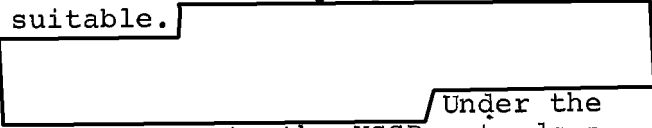
The USSR also has permitted Cambodia to reverse gracefully the hostile attitude it developed over a diplomatic slight to Sihanouk. The renewal of contact earlier this year was followed up by a small military pact under which the USSR has provided a few aircraft and some miscellaneous equipment.

Latin America

Soviet interest in shoring up its economic position in Latin America has revived, but there is little prospect that the drive of the early 1960s--which resulted only in artificial trade gains--will be renewed. Moscow, instead, is trying to promote more meaningful relations.

Following a years' joint study the USSR and Brazil announced in August an agreement that will result in a moderate expansion of trade, and may lay the groundwork for a more enduring economic relationship. In late 1965, Brazil had rejected

Soviet offers of project aid as unsuitable.

 Under the new agreement, the USSR extends a \$100-million credit to finance short-term imports of machinery and equipment purchases. The USSR also agrees to accept one fourth of the repayment in Brazilian-manufactured goods, an export market that Brazil has sought to enter and develop.

Elsewhere in Latin America, the USSR also has shown a proclivity to relate its aid program to trade rather than to development projects where Soviet restrictions and Latin American domestic policies have previously resulted in failures. Most Latin American states, still apprehensive about the political motives of the USSR, apparently feel more confident if relations are limited largely to commercial exchanges. Uruguay and Chile are considering accepting some Soviet aid that will be drawn down through imports of Soviet industrial goods, but will not be related to specific development projects requiring Soviet supervision and large number of foreign technicians. The agreement with Chile is likely to amount to \$50-75 million; discussions with Uruguay have been limited to about \$20 million.

Communist World

Aid to Communist countries swells total Russian outlays

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considerably. The USSR has extended new aid this year to North Vietnam, Cuba, Yugoslavia, and apparently North Korea. It is also delivering, under credit programs, substantial quantities of industrial equipment to Bulgaria and Mongolia.

Cuba continues to require major support. In addition to the balance of payments assistance announced early this year, more aid is being made available. Cuba's failure to meet its sugar output goal this year has resulted in sharply slashed deliveries to the USSR--shipments designed to meet Cuba's obligations to Moscow. Military assistance continues, but appears to be rather small with no major new agreements concluded recently, although Cuban military delegations have visited the USSR during the year.

The substantial aid offered to Yugoslavia attests to the USSR's desire to maintain and increase its economic contacts despite some disparity of political views. The economic aid extended after several

months' negotiation augments Soviet assistance to the Yugoslav military establishment during recent years, some of which apparently is on a credit basis.

Moscow also appears to have made new aid commitments to North Korea as part of its effort to improve ties with that country and to capitalize on cooling Sino-Korean relations.

While there is no evidence that the estimated \$250 million worth of economic and military aid to North Vietnam last year imposed a severe drain on the Soviet economy, much of the aid delivered has come from the transport and construction equipment sectors where demand already was high. Shipments of military equipment probably come from existing stockpiles. Soviet aid deliveries to Vietnam are increasingly being placed on a grant basis, and much of the new assistance promised to Hanoi by Moscow this week will be in the form of a gift.

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