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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

## *Special Report*

*The Soviet Foreign Aid Program*

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## THE SOVIET FOREIGN AID PROGRAM

Since the USSR began providing economic aid to non-Communist countries nearly 14 years ago, it has committed a total of \$6 billion,\* of which nearly \$2.5 billion has been delivered. The substantial balance outstanding together with Moscow's willingness to begin new programs and to expand others indicate that economic aid will remain a basic feature of the USSR's relations with less-developed countries.

Military aid also is a prominent feature of Soviet relations with some of the countries and has usually had a more immediate impact than economic assistance. To date Moscow has extended about \$4.5 billion in military aid and has become the sole or major source of armaments to 21 countries. The major Soviet effort involved in making up the Arab's losses from their war with Israel has not prevented the USSR from beginning new programs elsewhere.

### Economic Aid

The Soviet economic aid program continues to be focused on assistance for specific projects, but as Moscow has gained experience it has been making more careful appraisals of a project's feasibility. Although large blanket credits, designed chiefly for political impact, were made frequently in the early years of the aid program, they are seldom extended now. The USSR has also experimented with trade credits--shorter term loans to finance more immediate needs. Several hundred million dollars worth of

such credits were made available last year. The unexpected economic burden of making up the Arabs' losses may inhibit, but will not prevent, the USSR from moving forward with economic aid in other areas.

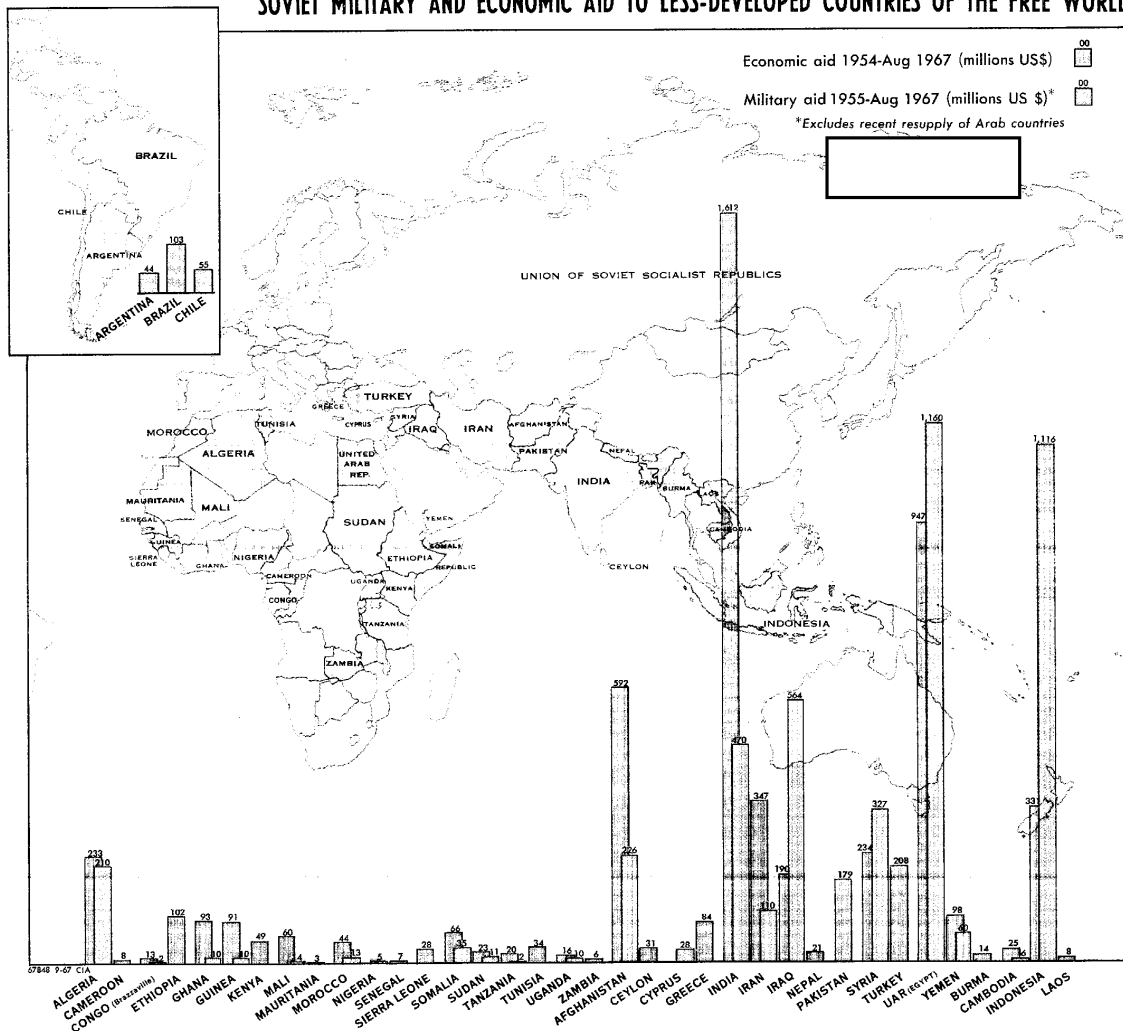
Soviet economic aid commitments to the less-developed countries now total \$6 billion, of which \$2.8 billion has been extended to Asia, \$2.1 billion to the Middle East, \$896 million to Africa, and \$202 million to Latin America. Thus far this year aid extensions have amounted to only \$64 million, all of which was

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\*All values given in US dollars.

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### SOVIET MILITARY AND ECONOMIC AID TO LESS-DEVELOPED COUNTRIES OF THE FREE WORLD



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for new recipients--Chile, Mauritania, and Zambia. Large aid commitments made in the past three years to India, Egypt, Iran, and Pakistan in support of their five-year plans account for the low level of new commitments this year. A Soviet commitment to Afghanistan's five-year plan, not yet worked out, may substantially raise the total before the end of the year.

Soviet outlays for short-term assistance to its older clients have been considerable in recent months. Moscow has agreed to provide over 1.5 million tons of wheat, worth at least \$115 million, to Algeria, Egypt, India, and Afghanistan. In addition, it has extended small amounts of emergency relief aid to the Arab states.

#### Middle East

Although Moscow quickly arranged for emergency economic aid to the Arab countries after their defeat in June, its primary concern was the resupply of military equipment. With arrangements for new military aid now essentially completed, Moscow's attention will turn more toward the economic problems of the area, particularly those of Egypt.

With the withdrawal of Western aid and the loss of earnings from the Suez Canal and tourism, Egypt is heavily dependent on Soviet assistance, although this burden may be at least temporarily alleviated by cash donations from oil-rich Arab states. Fortunately

for Moscow, its long-range development commitments in Egypt--already subjected to several downward revisions because of economic retrenchment--are likely to be curtailed further by Cairo's current austere budget for economic development. Some \$150 million slated for development projects that have been canceled or postponed will be available to meet Egypt's more immediate needs. Moscow probably will urge Cairo to use this to finance imports from the USSR of raw materials and equipment previously obtained from Western suppliers. Moscow is supplying almost half of Egypt's wheat imports this year. Soviet assistance for well-advanced development projects, however, probably will be accelerated to ensure their rapid completion, and the major aid project--the Aswan Dam--will continue to receive the highest priority.

The USSR last year agreed to take on a major water conservation program in Syria, and heavy construction equipment already has arrived. It was accompanied by Soviet advisers and technicians who will help build a dam on the Euphrates. The activity in Syria is spurring Iraq to seek a riparian rights agreement with Syria, and probably will encourage the Iraqis to proceed with their own plan involving Soviet aid for the construction of a dam farther down the river.

The Middle Eastern countries with conservative regimes also get Moscow's attention. Soviet plans to help build a steel plant

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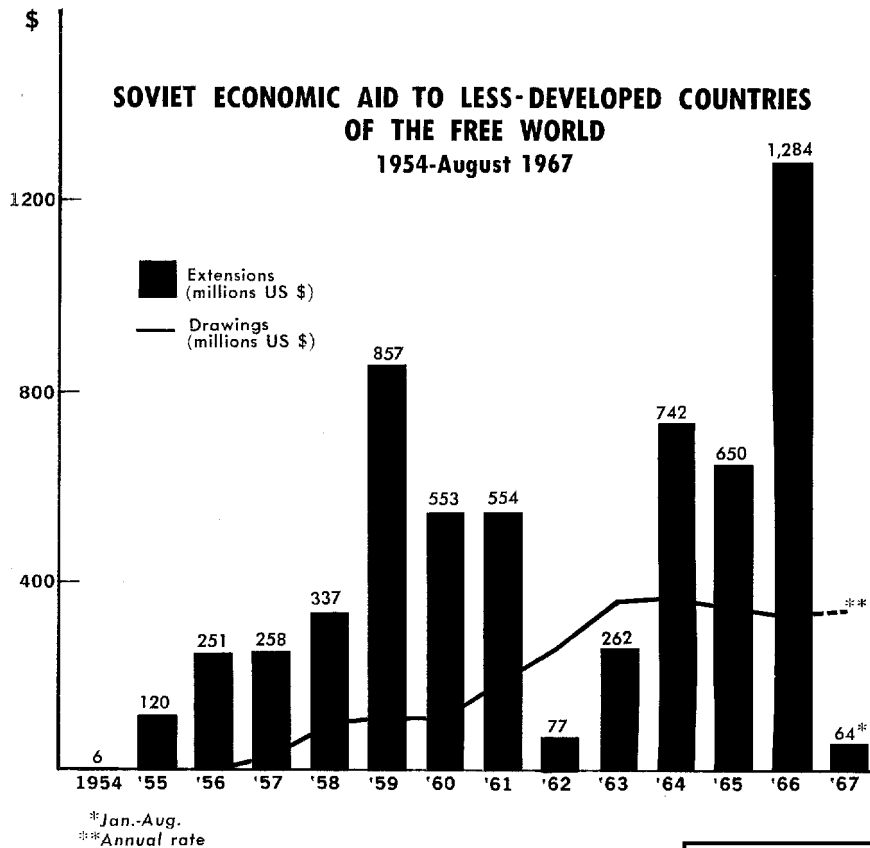
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and a gas pipeline in Iran are moving ahead, and agreement may eventually be reached for Soviet exploitation of oil in the Caspian offshore areas. The USSR has recently signed construction contracts with Turkey for seven industrial projects that had been proposed under a 1965 aid agreement. Moscow has just repeated its \$100-million credit offer to Lebanon, first made last spring, and may make a similar offer to Jordan's King Husayn when he visits Moscow this fall. The occasional exchange of delegations between the USSR and Kuwait may result in some arrangement for Soviet technical assistance, as envisaged under a 1964 agreement.

Asia

The USSR made large commitments last year to India and Pakistan for their five-year plans. Moscow also has committed itself to participate in Afghanistan's third five-year plan. The Soviet contribution to Kabul, which probably will be announced later this year, is expected to match initial Soviet commitments for previous plans, which have amounted to \$100 million each.

The USSR's efforts in India are built on its previous large, successful industrial developments. Soviet credits for New Delhi's fourth five-year plan will



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be used to expand the capacities of the Bhilai steel plant, two petroleum refineries, a heavy machine building plant, and two electric power stations. In addition, the USSR has agreed to build a new steel plant at Bokaro in Bihar State. The USSR also is continuing to play the principal role in the research and exploration activities of the Indian National Gas Commission.

The Soviets have embarked on new projects in Pakistan. The first contracts under a credit of \$84 million granted last year were signed in April. They provide for Soviet assistance in the construction of two heavy electrical machinery plants--one in East and one in West Pakistan.

Significant progress has been made on Soviet aid projects in Afghanistan. The natural gas pipeline from Afghanistan into Soviet central Asia was completed in July, and gas deliveries to the USSR will begin this year. Under a protocol signed in May, gas deliveries to the USSR from 1967 through 1985 will yield Kabul a gross return of about \$320 million. Other recently completed projects include a prefabricated housing plant in Kabul and a section of road from Kabul northward to the Soviet border.

Soviet relations with Indonesia are still strained and construction is suspended on all major Soviet aid projects. Although agreement was reached in November 1966 to reschedule Indonesia's debt to the USSR, Indonesia has

not ratified the agreement and is pressing for a longer moratorium before beginning repayment.

### Africa

The USSR continues to make small commitments to new recipients in Africa--the latest being to Mauritania and Zambia--but it is making little effort to expand existing programs, many of which have had only partial success. One of the difficulties is that African countries are unable to provide the necessary local financing, thus impeding the progress of development projects. Soviet commodities--furnished under credit arrangements for sale on the local market to generate domestic currency--have in some cases met with consumer resistance and the funds acquired have been insufficient. Moscow is unlikely to make cash credits available to meet local costs of development.

The USSR is applying more rigid requirements to its aid projects in Africa, and is increasingly reluctant to undertake projects that have little long-term economic justification. In Mali and Guinea, both major recipients of Soviet aid in the past, few new proposals have met the stiffer criteria, and Moscow has shied away from providing additional aid or short-term credits. Despite some feelers by the new Ghanaian Government on a partial resumption of Soviet aid, neither side has really tried to reactivate the program.

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Soviet aid programs in east Africa are moving at a snail's pace. In Somalia, the Russians are still trying to get previous aid projects working rather than starting anything new. To avoid repeating mistakes made in Somalia, Soviet technicians have spent more than a year studying the feasibility of projects proposed under the 1966 Soviet-Tanzania aid agreement, and few have yet been approved. Neither the Ethiopians nor the Soviets have shown any real interest in negotiating new projects following the completion earlier this year of the Soviet-built oil refinery.

Moscow is concerned over the lack of progress in its aid program in Algeria, a concern the Algerians share. In late April, the Soviets dispatched S.A. Skachkov, chairman of the State Committee for Foreign Relations and one of the highest officials in the foreign aid field, to work out the details of Soviet participation in order to get the program moving.

Skachkov also stopped in Morocco to discuss Soviet project proposals in connection with a Soviet-Moroccan aid agreement concluded last fall. Additional feasibility studies will delay the start of any projects, however. Apart from the aid projects, a Moroccan delegation visited Moscow in July and is believed to have completed initial negotiations to import Soviet machinery under a three-year, \$10-million trade credit.

### Latin America

Soviet interest in promoting closer economic relations with Latin America remains high, but results to date are small. The USSR followed up last year's \$100-million credit arrangement with Brazil with this year's \$57-million agreement with Chile. A Chilean delegation is scheduled to visit Moscow in the near future to negotiate specific contracts.

There is no reason, however, to suppose that Soviet-Chilean economic ties will expand rapidly. The agreement with Brazil, for example, called for the \$100-million trade credit to be allocated equally in 1967, 1968, and 1969, but the only deal concluded thus far has been a \$5-million credit for equipment to be used in the construction of a petrochemical plant.

Despite this meager result, Moscow still sees trade credits as the best means to foster economic relations with the Latin Americans, most of whom remain suspicious of the presence of the large numbers of Soviet technicians required by project-type economic aid. In May, Moscow renewed its \$20-million credit offer to Uruguay, first made in early 1966, and other Soviet trade credit offers are outstanding to Costa Rica, Colombia, and Ecuador.

### Military Aid

Under its military aid program to non-Communist countries,

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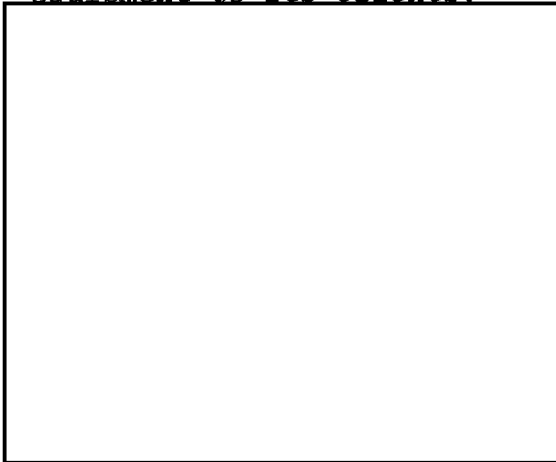
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the USSR has delivered thousands of aircraft, tanks, and artillery pieces, and hundreds of naval craft. Deliveries are being maintained at a steady pace.

Soviet military aid outlays to the less-developed countries had been running at about \$400 million annually, but will be substantially higher this year because of the additional aid to the Arab countries. The cost of this unforeseen requirement--some \$200 million--as well as that of increased military assistance to North Vietnam will not appreciably reduce the USSR's capability to mount new military aid programs.

Following the pattern of recent years, the USSR is delivering more modern equipment to its clients.



Middle East and Africa

Moscow's most notable military aid breakthrough this year has been the conclusion of a \$110-million pact with Iran, long a

hold-out against any agreement that established close relations with the USSR. An arrangement whereby natural gas that had been going to waste could be used as a means of payment helped clinch this deal. Full details on what is to be supplied are not known, but in April the USSR began delivery of armored personnel carriers, anti-aircraft artillery, and vehicles.



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

**Land Armaments**

|                               |       |
|-------------------------------|-------|
| Heavy, medium and light tanks | 3,700 |
| Armored personnel carriers    | 3,450 |
| Artillery                     | 7,000 |

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**Naval Ships**

|                                 |     |
|---------------------------------|-----|
| Destroyers                      | 20  |
| Submarines                      | 27  |
| Motor torpedo and missile boats | 134 |
| Other naval craft               | 230 |

**Aircraft**

|                              |       |
|------------------------------|-------|
| Medium and light jet bombers | 250   |
| Jet fighters                 | 1,350 |
| Heavy transports             | 83    |
| Other aircraft               | 1,000 |

**Missiles**

|                                   |    |
|-----------------------------------|----|
| Surface-to-air missile battalions | 63 |
|-----------------------------------|----|

\*A small quantity of East European equipment is included.

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worth of Soviet-supplied military equipment. Just how much of this will be replaced is still not clear. The USSR, however, did mount a massive airlift and stepped up its deliveries by sea in late June and July to re-establish Arab air defenses and to replace some ground equipment.

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South and Southeast Asia

With their substantial relationship with India in mind, the Soviets have moved slowly in Pakistan. Under an arrangement publicized as "commercial," however, they have supplied several thousand vehicles for the Pakistani armed forces, and the first of six large troop transport MI-6 helicopters was ferried to Pakistan in July. Pakistan probably hopes for further talks on military supplies in Moscow this month, when a mission headed by President Ayub is scheduled to visit the USSR.

Soviet military supply of Indonesia, dormant since the anti-Communist coup in the fall of 1965, will be resumed soon. Moscow now has agreed to supply spare parts for Indonesia's inventory of Soviet arms which was originally worth about \$1 billion. For both political and economic reasons--the latter largely Indonesia's inability to meet payments on its arms debt--the USSR had permitted its military program in Indonesia to lag. Indonesian

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military students who were training in the USSR when strains developed in Soviet-Indonesian relations were permitted to complete their courses. No new equipment has been delivered, but in the inter-

est of maintaining at least minimal ties the USSR may have relented on its earlier unwillingness to make any further deliveries to Indonesia on credit.

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