



Communist Aid to the Less Developed Countries of the Free World, 1976

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PREFACE

In this report the term *Communist countries* refers to the USSR, the People's Republic of China, and the following countries of Eastern Europe—Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

The term *less developed countries of the Free World* includes the following:

- (1) all countries of Africa except the Republic of South Africa;
- (2) all countries of East Asia except Hong Kong and Japan;
- (3) Malta, Greece, Portugal, and Spain in Europe;
- (4) all countries in Latin America except Cuba; and
- (5) all countries in the Middle East and South Asia.

The term *extension* refers to a commitment to provide goods and services either on deferred payment terms (five or more years with maximum 8 percent interest) or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. The term *drawings* refers to the delivery of goods or the use of services. Estimates of the value of Communist military agreements and deliveries are in Soviet trade prices.

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*Central Intelligence Agency
Directorate of Intelligence*

August 1977

Aid Patterns

Soviet economic and military aid, by far the largest Communist program in the Third World, continued to reflect Moscow's international political interests in 1976 while also enhancing its commercial position. The Soviet venture into Africa, Moscow's readiness to provide sophisticated weapons systems on favorable terms to Peru, and accelerated military and economic aid to Iraq dramatized again Moscow's use of aid in pursuing its foreign policy objectives in the Third World. As in most recent years, military sales were the USSR's most powerful instrument. The value of Soviet military commitments was almost triple economic pledges.

The Soviet political decision to establish a strong presence in Africa was supported by military assistance programs in Angola and Mozambique; arms and technical assistance (including Cuban technicians) to national liberation movements in southern Africa; and continued military aid to Uganda and Somalia. Moscow also provided most of these countries with small amounts of economic aid. Other significant politically motivated developments include:

- An expanded Soviet role in Lima's military establishment as a result of Moscow's first sale to Peru's air force, which made Moscow Peru's principal arms supplier.
- Unprecedented military support to Iraq—possibly to guarantee a Soviet presence in the Middle East—that made Iraq Moscow's largest current Middle East arms client. Iraq

also received a new commitment of economic aid.

- Sharply reduced arms shipments to Syria and failure to sign a new Soviet-Syrian military agreement because of Soviet displeasure over Syria's foreign policy.
- A continuing embargo on arms to Egypt after the cutoff in mid-1975.

At the same time, the USSR used military and economic programs to expand commercial interests in the Third World. Hoping to share more heavily in the new oil wealth and to reduce unprecedented global hard-currency deficits, Moscow sought cash sales and often exacted harder terms than before for economic aid as well as military sales. The large hard-currency earnings and additional assured supplies of certain strategic raw materials have put Moscow actively into the arms merchant class.

Moscow parlayed its arms deals into a \$2.5 billion business in 1976. Fast delivery, a willingness to sell sophisticated weapons systems to almost any LDC, and somewhat smaller price tags than for comparable Western equipment earned Moscow large amounts of hard currency or equivalent goods on its 1976 deliveries. These derived mostly from deliveries to major Arab clients, most of them believed to be cash customers.

As in every year since 1970, arms sales kept Moscow's trade with LDCs out of the red in 1976.

Such sales, which have accounted for about a half of Moscow's total exports to LDCs in some recent years, underpin Soviet trade surpluses with the Third World. Preliminary estimates for 1976 indicate that had it not been for arms exports, the Soviet trade surplus of \$1.2 billion with the Third World would have been a deficit.

In contrast with arms sales, Soviet economic aid has become a static program focused on a handful of recipients. No major new initiatives emerged in 1976, and the \$900 million aid package contained no surprises. A few large credits went to Moscow's traditional clients, and once again the program was commercially slanted. Both the USSR and Eastern Europe provided most of their aid in the form of trade credits, which have shorter repayment periods and carry higher interest rates than traditionally allowed under development agreements. Some agreements—especially those with Latin American countries—were associated with formal trade accords and were open-ended. Economic aid continued to dominate East European and Chinese programs. Most new agreements in 1976 appeared designed to gain access to strategic raw materials, such as oil and phosphates.

At the end of 1976, LDCs had taken delivery of about \$30 billion of the \$46 billion in Communist economic aid and military commitments made them over the past two decades. The delivery figure is heavily weighted by the military, for which deliveries have been far larger and more rapid than for economic aid. Nonetheless, large repayments of principal and interest continue to erode the flows. Repayments for economic aid in 1976 are estimated at about half of the \$950 million in total Communist disbursements. In the case of Soviet economic aid, Moscow's former major clients—Egypt and India—sustained negative flows.

The Military Program

A Banner Year

Despite the recent cooling of Soviet relations with a number of favored clients, Communist military supplies to the Third World rose to a near peacetime record in 1976. Massive arms agreements reported with Iraq and major new deliveries to Iraq and Libya pushed Communist

military activities to heights reached only in 1973-74 when the USSR replenished client inventories in the Middle East during and after the October war (figure 1).

Moscow accounted for about 90 percent of the \$2.6 billion of new accords and of the \$2.5 billion in deliveries. China's \$100 million in agreements was a third above any previous year, while East European military contracts fell to \$75 million, their lowest level since 1970.

Arms deliveries in 1976 surged, as Moscow rushed to fill orders that had accumulated as a result of heavy commitments that began in 1973 (see tables 1 and 2). The near record was somewhat below expectations, however, because of Moscow's reduced deliveries to Syria.

Problems in Egypt and a faltering relationship with Syria did not alter Moscow's preoccupation with the Middle East/North Africa. Although this area still claims the largest share of total

Communist Military Agreements and Deliveries to Less Developed Countries Figure 1

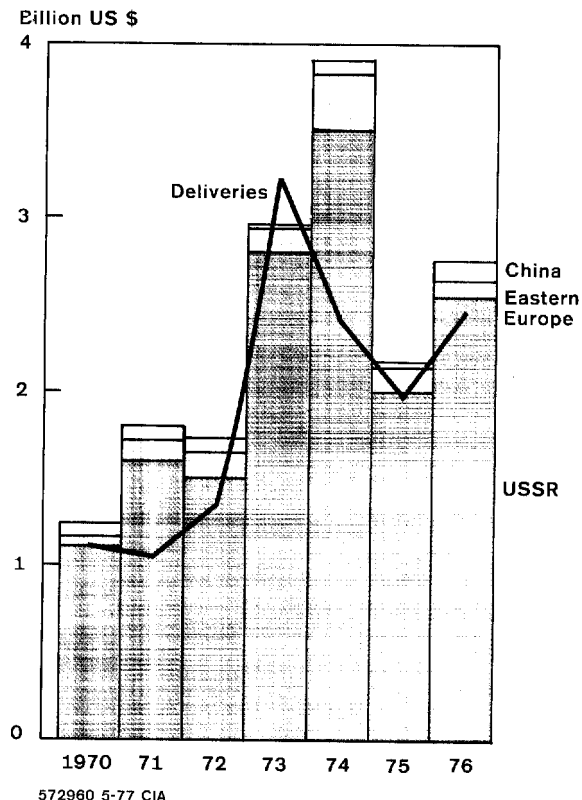


Table 1

Communist Military Agreements and Deliveries to Less Developed Countries

Million US\$

	Total		USSR		Eastern Europe		China	
	Agreements Concluded	Deliveries	Agreements Concluded	Deliveries	Agreements Concluded	Deliveries	Agreements Concluded	Deliveries
Total	23,525	19,470	20,875	17,215	1,950	1,655	700	600
1955-66	5,350	4,300	4,500	3,575	675	625	175	100
1967-76	18,175	15,170	16,375	13,640	1,275	1,030	525	500
1967.....	675	550	525	500	100	25	50	25
1968.....	575	600	500	500	50	75	25	25
1969.....	475	525	350	450	125	50	Negl	25
1970.....	1,275	1,100	1,150	1,000	50	75	75	25
1971.....	1,800	1,000	1,600	850	125	75	75	75
1972.....	1,725	1,360	1,500	1,205	150	70	75	85
1973.....	2,950	3,200	2,800	3,010	125	120	25	70
1974.....	3,900	2,400	3,500	2,250	325	130	75	20
1975.....	2,175	1,965	2,000	1,685	150	210	25	70
1976.....	2,625	2,470	2,450	2,190	75	200	100	80

Table 2

Soviet Military Deliveries to the Third World

Million US\$

	1972	1973	1974	1975	1976
Total	1,205	3,010	2,250	1,685	2,190
Africa.....	55	75	235	600	1,070
Latin America.....	0	10	25	55	80
Middle East.....	970	2,655	1,785	850	830
South Asia.....	180	270	205	180	210

Communist arms supplies, the distribution is changing, and the more radical Arab states have emerged as major recipients. This shift has advantages to Moscow in that Iraq, Libya, and Algeria can afford to pay cash even though they may not serve the same Soviet interests as Egypt and Syria had before. Moscow also built a military presence in sub-Saharan Africa by consolidating its position in Angola and giving increased support to insurgent groups in southern Africa.

The dollar values cited for military goods throughout the paper represent an update and revision of data previously used for Soviet arms exports and agreements in 1972-75 made possible by recent information on Soviet prices for major items of equipment and the conversion of ruble prices into current dollars.

Major Clients

The most significant development in Moscow's military diplomacy with LDCs in 1976 was the cooling of the Soviet-Syrian relationship. The Soviets reduced the flow of arms and failed to sign a new arms accord, thereby showing displeasure over Syria's Lebanon adventure.

Communist relations with other major Arab clients—except Egypt—continued apace. An estimated \$1 billion Soviet agreement in principle with Iraq had previously been equaled only by a similar agreement with Libya in 1974. The new accord propelled Baghdad into first place among current Soviet arms recipients. Aircraft to support Baghdad's modernization plans have bulked heavily in Soviet shipments and include MIG-23s and advanced MIG-21s.

Libya received sophisticated land armaments, jet fighters, and bombers under the \$1 billion 1974 agreement. Libya's military establishment can neither absorb nor maintain the vast quantities of arms that have deluged its inventories over the past two years. Despite extensive Soviet training of Libyan nationals—1,100 Libyans in the USSR and many more in Libya—Tripoli still relies heavily on foreign technicians. In 1976, 800 Communist advisers were in residence to support Libya's Communist-supplied inventory. Tripoli continues to stockpile arms, possibly for use by other states as well as for its own defense.

In 1976, Moscow also made large sales to Peru. The record \$250 million sale to Peru marks the first placement of Soviet jet fighters in the Western Hemisphere outside of Cuba. The sale establishes Moscow as Lima's principal arms supplier.

Buoyed by its success in establishing a major presence in southern Africa in 1975, Moscow moved rapidly to sign new agreements with clients in the region. In contrast to commercially oriented policies elsewhere, favorable financing

terms were undoubtedly offered in sub-Saharan Africa.

The USSR's relationship with Angola was enhanced by a Twenty-Year Friendship Agreement that provided for more military equipment to upgrade Luanda's military establishment. Deliveries to Angola introduced new weapons systems including jet fighters, modern tanks, and guided antiaircraft missiles. Moscow also increased shipments of military equipment through established African governments to support insurgent groups in southern Africa. Mozambique also signed a new agreement in 1976. In a surprise move, Moscow offered Ethiopia large credits for arms, while assuring Somalia—a rival of Ethiopia—of continuing heavy support.

Technical Services

In addition to the large new deliveries of military equipment in 1976, some 21,700 Communist personnel were stationed abroad to assemble and maintain equipment and train local units in the operation and maintenance of the new weapons (see table 3). Soviet and East

Table 3
Communist Military Technicians in Less Developed Countries,¹ 1976

	Total	USSR and Eastern Europe	Cuba
Total	20,730	9,080	11,650
Africa	15,050	3,900	11,150
of which:			
Angola	10,500	500	10,000
Equatorial Guinea	125	25	100
Guinea	375	75	300
Guinea-Bissau	75	50	25
Libya	800	800	0
Mozambique	400	50	350
Somalia	1,100	1,000	100
Sudan	90	90	0
Uganda	300	300	0
Latin America	30	30	0
Peru	30	30	0
Middle East and South Asia	5,650	5,150	500
of which:			
Afghanistan	350	350	0
India	300	300	0
Iran	120	120	0
Iraq	1,000	1,000	0
Syria	2,500	2,500	0

¹ Minimum estimates of the number present for one month or more. Numbers are rounded to the nearest five. Excluding personnel from China and North Korea.

European technicians—traditionally accounting for about 90 percent of the total—were outnumbered by almost 12,000 Cubans, all in Africa and the Middle East. Cubans were most heavily concentrated in Angola, where an estimated 10,000 were assigned to all levels of the military. According to rumors, Libya also has requested a large contingent of Cubans to help alleviate its military manpower shortage.

Moscow's use of Cuban troops as an adjunct to its military supply program first received widespread attention during the Angolan conflict in 1975, when up to 16,000 Cuban troops were deployed to MPLA forces in connection with an airlift of Soviet military equipment. Cuban personnel trained Angolans in the operation and maintenance of their new Soviet inventory, and Cuban combat support was credited with turning the tide in favor of the Soviet-supplied forces.

Although the conditions of Cuban military technical assistance are not known, the USSR has probably shouldered at least part of the financial burden. This may have involved only transport costs, but it could have included subsistence and salaries as well. In any case, there were savings to the LDCs because Cubans are believed to come at lower prices than Soviet or East European technicians. We estimate that salaries for Soviet and East European personnel run as high as \$15,000 to \$20,000 a year each and are paid for on a current basis. If other allowances and costs are added, this figure might be doubled. The use of Cubans probably also was calculated to have had fewer political and social repercussions.

The number of Soviet and East European military advisers in LDCs increased 10 percent in 1976, while the Chinese presence declined by more than 30 percent. The largest increases were in Angola, Libya, Uganda, and Iraq. Soviet military technical programs in Egypt and Syria were sharply curtailed, as neither renewed service contracts that expired.

LDC Trainees in Communist Countries

Third World personnel departing for training in the USSR also are a reflection of Moscow's large new arms deals that require more sophisticated technical training than can be given in less developed countries. Of the 2,500 personnel that went for advanced training at Soviet installations

in 1976, about three-fourths were from Afghanistan, Iraq, Libya, Peru, and Syria—all large clients with recent orders or deliveries of modern weaponry (see table 4). Most were trained to operate and maintain aircraft and air defense systems, which their countries had purchased under recent supply contracts. By the end of 1976, some 47,000 Third World military personnel had trained in Communist countries, more than four-fifths in the USSR.

Economic Aid

Communist aid pledges were more conservative in 1976 than in most recent years, although our estimates probably understate such commitments because values of some agreements are not known. At the end of 1976, the USSR was negotiating agreements with Latin American countries and Indonesia that could easily provide \$550 million in additional credits.

The \$1.5 billion actually pledged was a half billion dollars below the annual average of commitments in the five preceding years (see table 5). While Soviet aid commitments, which accounted for 60 percent of the total, maintained the 1971-75 average, Eastern Europe's commitments fell almost 20 percent. Chinese aid dropped even more precipitously.

Peking's \$100 million program was one-fourth of the previous five-year annual average. Nonetheless, Chinese aid continued as the most concessionary program. More than half of Peking's aid was given as outright grants for cost overruns on the Tan-Zam railroad, while commodities and cash outlays (mostly to African countries) absorbed another fourth.

Communist aid deliveries of \$950 million recovered somewhat from the 1975 slump, although Soviet shipments dropped to only about \$420 million* (figure 2).

The Soviet Program: Continuing Large Agreements with Traditional Clients

Arab countries remained the largest recipients of Soviet aid, taking 95 percent of Moscow's new extensions. Large commitments to these countries confirmed Moscow's policy of selectively provid-

* For details on total Communist economic aid pledges and deliveries to individual LDCs, see appendix A.

Table 4
 Military Personnel from the Less Developed Countries Trained in
 Communist Countries,¹ 1955-76

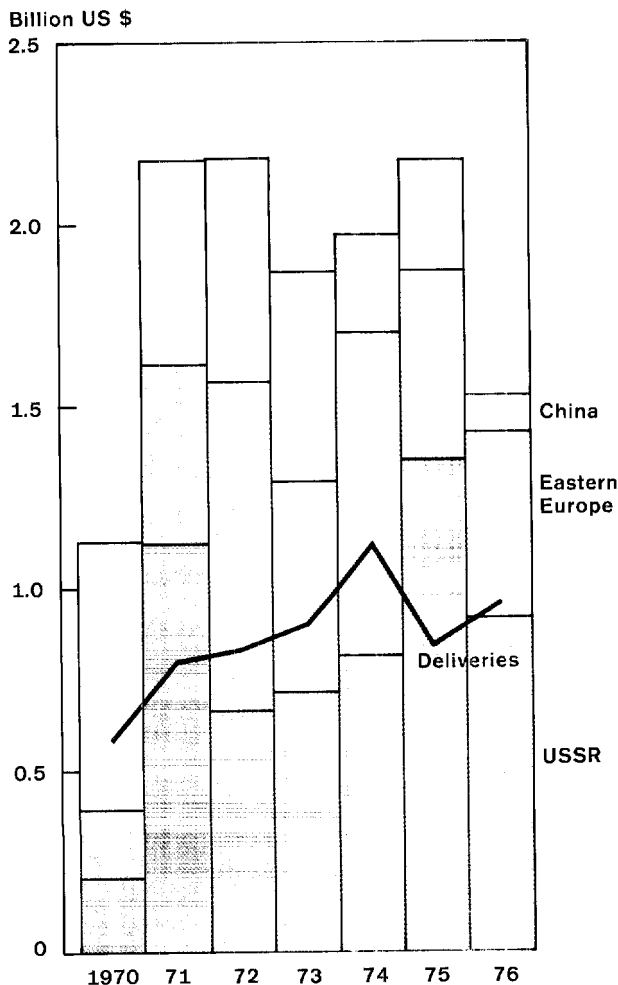
	Total	USSR	Eastern Europe	China
Total	47,225	39,950	4,375	2,900
Africa	14,075	10,775	775	2,525
Algeria	2,250	2,025	200	25
Benin	25	25	0	0
Burundi	75	75	0	0
Cameroon	75	0	0	75
Chad	75	75	0	0
Congo	825	325	75	425
Equatorial Guinea	200	200	0	0
Ghana	175	175	0	0
Guinea	1,250	850	50	350
Guinea-Bissau	100	100	0	0
Libya	1,125	1,100	25	0
Mali	250	200	Negl	50
Morocco	150	75	75	0
Mozambique	375	300	25	50
Nigeria	525	500	25	0
Sierra Leone	150	0	0	150
Somalia	2,500	2,400	75	25
Sudan	525	300	25	200
Tanzania	2,350	1,325	Negl	1,025
Togo	50	0	0	50
Uganda	900	700	200	0
Zaire	75	0	0	75
Zambia	50	25	0	25
East Asia	9,275	7,575	1,700	0
Cambodia	25	25	0	0
Indonesia	9,250	7,550	1,700	0
Latin America	550	550	0	0
Peru	550	550	0	0
Middle East and South Asia	23,325	21,050	1,900	375
Afghanistan	3,975	3,725	250	0
Bangladesh	450	450	0	0
Egypt	6,250	5,675	575	0
India	2,250	2,175	75	0
Iran	325	325	0	0
Iraq	3,600	3,250	350	0
North Yemen	1,100	1,100	0	0
Pakistan	425	50	0	375
South Yemen	800	775	25	0
Sri Lanka	Negl	Negl	0	Negl
Syria	4,150	3,525	625	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.

Table 5
Communist Economic Aid to Less Developed Countries, Extensions and Drawings

	Total		USSR		Eastern Europe		China	
	Extended	Drawn	Extended	Drawn	Extended	Drawn	Extended	Drawn
Total.....	22,197	10,710	11,769	6,560	6,475	2,200	3,953	1,950
1954-66.....	7,985	3,165	5,065	2,245	2,013	565	907	355
1967-76.....	14,212	7,545	6,704	4,315	4,462	1,635	3,046	1,595
1967.....	473	525	291	310	132	115	50	100
1968.....	638	505	379	310	205	125	54	70
1969.....	933	525	494	355	426	100	13	70
1970.....	1,122	585	198	385	196	130	728	70
1971.....	2,171	795	1,125	440	484	165	562	190
1972.....	2,188	825	802	430	828	140	558	255
1973.....	1,573	895	661	490	484	175	428	230
1974.....	1,641	1,115	580	690	789	185	272	240
1975.....	1,994	825	1,299	485	422	200	273	140
1976.....	1,479	950	875	420	496	300	108	230

Communist Economic Agreements and Deliveries to Less Developed Countries Figure 2



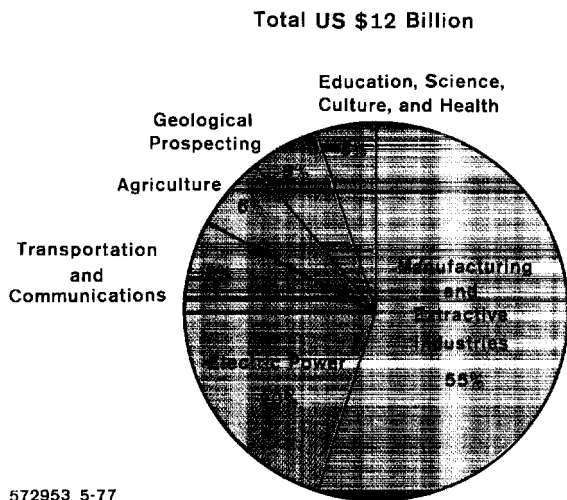
ing assistance to countries with which the USSR hopes to expand or consolidate political, economic, or commercial ties. Repeating the pattern of 1975, large agreements with two countries (Algeria and Iraq) absorbed a large share of new pledges. While all of these agreements are expected to yield economic benefits to Moscow, the two countries also have longstanding political ties with the USSR, which Moscow is anxious to maintain. Soviet aid, mostly designated for continuing development programs, included:

- A \$290 million credit to Algeria for an aluminum plant.
- At least \$150 million in new assistance to Iraq for continuing projects, complemented by \$1 billion of commercial contracts for four major power and irrigation projects.
- Smaller agreements with Tunisia and South Yemen, which totaled about \$80 million, largely for water and power development.

Assistance to major clients again emphasized development of heavy industrial and power facilities, sectors in which Moscow has some advantage. Over the course of its 23-year aid program, the USSR has put about three-fourths of its total aid into these development activities (figure 3).

Moscow's aid to sub-Saharan Africa generally responded to the needs of former Portuguese colonies for technical assistance and infrastructure development. Mozambique received pledges of aid for irrigation, mining, transportation, port management, construction, and public health.

Distribution of Soviet Aid Figure 3



Agreements with Angola and Guinea-Bissau provided similar assistance.

Eastern Europe's Expanding Business Interests

Eastern Europe's \$500 million program, which was spread somewhat more widely than the USSR's, was largely to support East European efforts to expand machinery and equipment sales in the Third World. Romania again set the pace by allocating \$200 million in 10-year credits for construction of an oil refinery in Turkey. Czechoslovakia extended a \$100 million credit to Brazil for equipment purchases. Other East European aid was distributed among 10 countries spread throughout the Third World.

Meanwhile, the USSR and Eastern Europe, anxious to expand their sources of foreign exchange financing, continued to try to attract funds directly from oil producers. These efforts were backed by vigorous competition for commercial contracts for heavy industrial projects, particularly in the Gulf emirates. Romania continued to negotiate for Kuwaiti financing for 49 percent of a \$1 billion petrochemical complex in Romania.

Personnel: Communist Technicians

The Communist technical presence in the Third World soared from about 55,000 in 1975 to 70,000 in 1976, despite a 25 percent decline in the number of Chinese personnel in Africa after the completion of the Tan-Zam railroad (see table

6). The total was swelled by an inflow of 4,400 Cubans, mostly to Africa, but more significantly by a doubling of the number of East European technicians. All in all, 26,000 East Europeans worked in LDCs, including some 10,000 working in Libya under commercial contracts (see table 6).

East European personnel were concentrated in the Middle Eastern and North African oil and phosphate producing states that can afford to pay cash or its equivalent. The estimated 21,000 East European personnel working in these countries resulted in an estimated \$200 million flow (at an average salary of \$15,000) of hard currency or equivalent goods to Eastern Europe in 1976.

Almost half of the Soviet technicians were concentrated in Algeria, Iran, Iraq, and Syria, where major new construction projects are starting. Afghanistan and India employed another 2,350. Rekindled Soviet interest in sub-Saharan Africa brought almost 250 economic technicians to Angola, Guinea-Bissau, and Mozambique for an overall increase of 650 in the area. Most of the new personnel were employed in administration, public health, and training.

Technical Training

On-site instruction continued to spearhead Soviet project personnel training in 1976. According to Moscow, its domestic training activity in Third World countries had yielded 300,000 skilled workers and 150,000 managerial, administrative, and research personnel for Soviet-built projects by the end of 1976. Major Soviet industrial development contracts now call for construction of permanent associated training facilities, which guarantee a continuing supply of skilled personnel for a given project at lower costs than overseas training. These centers are usually staffed with Soviet instructors for five or six years until teaching positions can be filled with Soviet-trained local professionals.

Most of the 4,250 trainees who went to the USSR in 1976 were from Middle East and South Asian countries that have major plants scheduled to begin operations before the required number of specialists can be trained domestically.

Academic Training

In 1976 the USSR and East European countries expanded their already substantial academic

Communist Economic Technicians in Less Developed Countries,¹
by Country, 1976

	Total	USSR and Eastern Europe	China	Cuba
Total	70,145	45,345	20,415	4,385
Africa	49,340	27,320	17,915	4,105
Algeria	6,835	6,625	200	10
Angola	3,525	525	0	3,000
Ethiopia	250	150	100	0
Ghana	175	50	125	0
Guinea	950	550	400	0
Kenya	30	25	5	0
Libya	10,000	10,000	0	0
Mali	650	300	350	0
Mauritania	250	50	200	0
Nigeria	300	200	100	0
Somalia	3,500	1,500	2,000	0
Sudan	850	50	800	0
Tanzania	1,350	150	1,000	200
Tunisia	475	400	75	0
Uganda	175	75	100	0
Zambia	5,925	225	5,700	0
Other	14,100	6,445	6,760	895
East Asia	105	65	40	0
Burma	65	25	40	0
Indonesia	15	15	0	0
Other	25	25	0	0
Europe	400	0	400	0
Malta	400	0	400	0
Latin America	1,135	750	105	280
Bolivia	50	50	0	0
Jamaica	280	0	0	280
Peru	315	300	15	0
Other	490	400	90	0
Middle East and South Asia	19,165	17,210	1,955	NA
Afghanistan	1,125	1,000	125	0
Bangladesh	225	225	0	0
Egypt	1,725	1,700	25	0
India	1,500	1,500	0	0
Iran	3,500	3,500	0	0
Iraq	5,300	4,900	400	0
Nepal	275	25	250	0
North Yemen	600	200	400	0
Pakistan	500	300	200	0
South Yemen	800	400	400	0
Sri Lanka	150	50	100	0
Syria	1,650	1,600	50	0
Turkey	450	450	0	0
Other	1,365	1,360	5	0

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

training effort for nationals of the Third World. The estimated 8,000 new enrollees increased the Third World student population in Communist countries to a record 36,450 (see table 7). This

represents a one-third increase in LDC student places in USSR academic institutions and a doubling of East European Third World student capacity in the past three years. Scholarship

Table 7

Academic Students from Selected Less Developed Countries
Being Trained in Communist Countries, December 1976

			Persons
Total	36,450	Zambia	325
Africa	18,395	Other	2,490
Algeria	1,560	East Asia	300
Angola	445	Laos	190
Benin	115	Other	110
Botswana	25	Latin America	4,200
Burundi	160	Bolivia	220
Cameroon	255	Brazil	125
Central African Empire	305	Chile	200
Chad	370	Colombia	400
Congo	880	Costa Rica	320
Equatorial Guinea	85	Ecuador	385
Ethiopia	1,255	El Salvador	95
Gambia	50	Guatemala	25
Ghana	430	Mexico	100
Guinea	815	Nicaragua	60
Ivory Coast	140	Peru	550
Kenya	345	Venezuela	60
Madagascar	450	Other	1,660
Mali	515	Middle East and South Asia	13,555
Mauritania	240	Afghanistan	950
Mauritius	210	Bangladesh	1,285
Morocco	270	Cyprus	920
Nigeria	1,175	Egypt	705
Rwanda	245	India	465
Senegal	275	Iraq	630
Sierra Leone	535	Jordan	650
Somalia	600	Lebanon	465
Sudan	1,740	Nepal	370
Tanzania	570	North Yemen	700
Togo	185	Pakistan	190
Tunisia	350	South Yemen	420
Uganda	235	Sri Lanka	125
Upper Volta	285	Syria	3,420
Zaire	465	Other	2,260

awards to Africans accounted for half of the total program, down from 60 percent in earlier years. The 20-year-old academic program remained the most concessionary Communist aid effort in 1976. Soviet scholarships provide all-expense training, including room, board, living expenses, and transportation.

By the end of the year, an estimated 48,500 students had returned from Soviet and East European training. Their reception has been mixed. In many countries, Communist diploma

holders are isolated by deeply entrenched Western influences, especially since most LDCs accept Western patterns of education and professional success as ideals. Nevertheless, most Communist-trained students, with the exception of doctors, appear to be trained adequately for the jobs they perform and are moving into responsible positions, especially in countries with endemic skilled manpower shortages. We believe this trend will accelerate as broadening development efforts in the Third World require ever larger numbers of skilled personnel.

APPENDIX A

Communist Economic Credits and Grants Extended to Less Developed Countries

Million US\$

	1954-76				1975				1976 ¹			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total	22,197	11,769	6,475	3,953	1,994	1,299	422	273	1,479	875	496	108
Africa	5,249	1,800	1,249	2,200	444	67	195	182	504	371	76	57
Algeria.....	1,331	715	524	92	183	0	183	0	290	290	0	0
Angola.....	20	10 ²	10 ²	0	0	0	0	0	20 ²	10 ²	10 ²	0
Benin.....	49	5	3	44	3	0	3	0	0	0	0	0
Botswana.....	3	0	0	3	0	0	0	0	3	0	0	3
Burundi.....	20	0	0	20	0	0	0	0	0	0	0	0
Cameroon.....	79	8	0	71	0	0	0	0	0	0	0	0
Cape Verde Islands...	3	3	0	0	0	0	0	0	3	3	0	0
Central African Empire	6	2	0	4	0	0	0	0	0	0	0	0
Chad.....	52	2	0	50	1	1	0	0	0	0	0	0
Comoro Islands.....	3	0	0	3	0	0	0	0	3	0	0	3
Congo.....	42	14	3	25	0	0	0	0	0	0	0	0
Equatorial Guinea.....	1	1	0	3	0	0	0	0	3	0	0	3
Ethiopia.....	209	105	19	85	4	2	2	0	1	0	0	1
Gambia.....	17	0	0	17	17	0	0	17	0	0	0	0
Ghana.....	237	93	102	42	0	0	0	0	0	0	0	0
Guinea.....	383	201	105	77	0	0	0	0	0	0	0	0
Guinea-Bissau.....	31	14	0	17	18	1	0	17	13	13	0	0
Kenya.....	66	48	0	18	0	0	0	0	0	0	0	0
Madagascar.....	66	0	0	66	55	0	0	55	0	0	0	0
Mali.....	177	86	23	68	2	0	0	2	0	0	0	0
Mauritania.....	90	5	0	85	0	0	0	0	0	0	0	0
Mauritius.....	35	0	0	35	0	0	0	0	0	0	0	0
Morocco.....	180	98	50	32	32	0	0	32	3	0	3	0
Mozambique.....	63	3	1	59	59	0	0	59	4	3	1	0
Niger.....	53	2	0	51	0	0	0	0	0	0	0	0
Nigeria.....	50	7	43	0	0	0	0	0	0	0	0	0

Footnotes at end of table.

Continued

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Communist Economic Credits and Grants Extended to Less Developed Countries (Continued)

Million US\$

	1954-76				1975				1976 ¹			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Africa (Continued)												
Rwanda	23	1	0	22	0	0	0	0	0	0	0	0
Sao Tome and Principe	^s	^s	0	^s	^s	0	0	^s	^s	^s	0	0
Senegal	93	9	35	49	0	0	0	0	35	0	35	0
Sierra Leone	58	28	0	30	0	0	0	0	0	0	0	0
Somalia	292	154	5	133	63	63	0	0	0	0	0	0
Sudan	299	64	153	82	0	0	0	0	0	0	0	0
Tanzania	392	20	13	359	0	0	0	0	28	0	0	28
Togo	45	0	0	45	0	0	0	0	0	0	0	0
Tunisia	235	82	113	40	10	0	10	0	85	55	30	0
Uganda	31	16	0	15	0	0	0	0	0	0	0	0
Upper Volta	61	1	0	60	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	0	0	0	0	28	0	0	28
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	37	1	35	1	5	0	5	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	6	1	4	1	0	0	0	0
Philippines	36	0	36	0	31	0	31	0	5	0	5	0
Western Samoa	^s	0	0	^s	0	0	0	0	^s	0	0	^s
Latin America	2,044	655	1,236	153	217	53	154	10	156	^s	155	1
Argentina	537	245	292	0	0	0	0	0	0	0	0	0
Bolivia	62	31	31	0	0	0	0	0	^s	^s	^s	0
Brazil	560	83	477	0	203	53	150	0	100	0	100	0
Chile	423	238	120	65	0	0	0	0	0	0	0	0
Colombia	65	10	55	0	0	0	0	0	50	0	50	0

Costa Rica	2	0	2	0	0	0	0	0	3	0	3	0
Ecuador	19	0	19	0	4	0	4	0	0	0	0	0
Guyana	36	0	0	36	10	0	0	10	0	0	0	0
Jamaica	10	0	0	10	0	0	0	0	1	0	0	1
Mexico	^s	^s	^s	0	0	0	0	0	^s	^s	^s	0
Peru	269	28	199	42	0	0	0	0	^s	^s	0	0
Uruguay	51	20	31	0	0	0	0	0	5	0	5	0
Venezuela	10	0	10	0	0	0	0	0	^s	^s	0	0
Middle East and												
South Asia	13,750	8,878	3,644	1,228	1,296	1,178	38	90	514	224	260	30
Afghanistan	1,364	1,251	40	73	425	425	0	0	0	0	0	0
Bangladesh	413	300	102	11	56	46	10	0	0	0	0	0
Cyprus	5	0	5	0	0	0	0	0	5	0	5	0
Egypt	2,230	1,300	796	134	25	0	25	0	0	0	0	0
Greece	84	84	0	0	0	0	0	0	0	0	0	0
India	2,430	1,943	487	0	0	0	0	0	0	0	0	0
Iran	1,333	750	583	0	0	0	0	0	45	0	45	0
Iraq	1,163	699	419	45	0	0	0	0	150	150	0	0
Lebanon	9	0	9	0	0	0	0	0	0	0	0	0
Nepal	199	20	0	179	80	0	0	80	^s	^s	0	0
North Yemen	221	98	17	106	0	0	0	0	27	0	0	27
Pakistan	1,141	652	84	405	0	0	0	0	10	0	10	0
South Yemen	116	39	21	56	0	0	0	0	24	24	0	0
Sri Lanka	326	95	73	158	57	57	0	0	3	0	0	3
Syria	1,306	467	778	61	0	0	0	0	50	50	0	0
Turkey	1,410	1,180	230	0	653	650	3	0	200	0	200	0
Undistributed	300	280	0	20	0	0	0	0	300	280	0	20

¹ Preliminary.

² Estimate.

³ An economic cooperation agreement has been signed, but information on the amount of aid extended—if any—is not available.

APPENDIX B

COUNTRY SECTIONS

AFRICA

Summary

Moscow's heavy military support to the victorious MPLA in Angola, which captured headlines in 1975, and Soviet help to established governments and insurgent groups throughout sub-Saharan Africa confirmed Moscow's new commitment to the region (figure 4).

Hoping to capitalize on success in Angola and to expand influence in southern Africa, the Soviets boosted military deliveries to sub-Saharan Africa in 1976, particularly to Angola to replace wartime losses and to consolidate the new government's position against scattered rebel forces.

In its dealings with traditional client states, Moscow concentrated on maintaining access to strategic facilities (ports in Somalia and Guinea and aircraft landing rights in Congo and Mali) and building the momentum of insurgent group activities in southern Africa. Buoyed by the victory in Angola, black nationalist forces operating against Rhodesia and Namibia hardened their stance against near-term peaceful settlement, and threats of open hostilities over control of the French Territory of Afars and Issas escalated as the date of French withdrawal drew nearer. Destabilizing effects of the Soviet arms trade also were evident in heightened tensions between Sudan and Libya and between Somalia and Ethiopia.

An influx of Communist personnel into former Portuguese colonies was spearheaded by more than 500 East European administrative and service personnel who replaced fleeing Western experts. Cubans continued to move into southern Africa in increasing numbers to train guerrillas and local militia personnel and in some cases to assist in economic development. China was less active in the political arena than in the past

several years, although it signed its first economic agreements with two small African nations (Botswana and the Comoro Islands) and continued to provide training and support to insurgent groups. Peking maintained its low-key economic programs in Africa and in 1976 made new commitments of about \$100 million, all to old recipients.

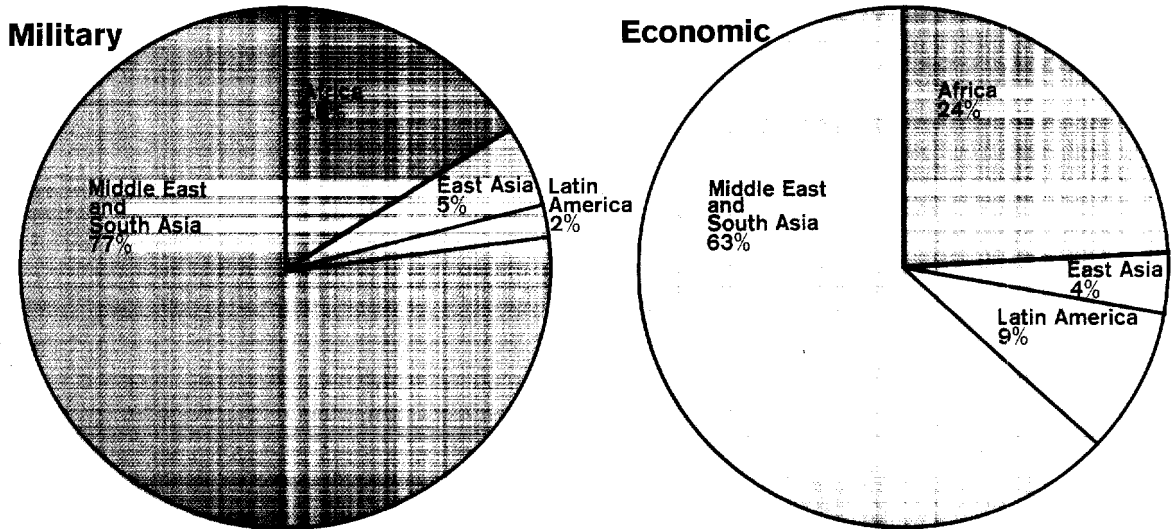
Moscow's responsiveness to economic and military needs in Arab Africa was reaffirmed in 1976 by continuing arms deliveries to Algeria and Libya. For the second consecutive year, Libya is believed to have received more Soviet arms than any other Third World client. Shipments to Algeria stirred fears in the Maghreb of a possible Algerian attack on Moroccan and Mauritanian troops in Western Sahara. The USSR also made a \$290 million commitment to Algiers for an aluminum plant—a record for that country—which together with \$55 million to Tunisia absorbed more than 90 percent of Moscow's 1976 African economic commitments.

Most of the rest of Soviet economic aid went to Angola and Guinea-Bissau, where Moscow sought to consolidate its presence. Despite somewhat greater interest in economic assistance to sub-Saharan Africa, the \$60 million pledge to Somalia in 1975 was Moscow's largest to the area since 1969, and its tropical African aid program still accounts for less than 10 percent of the \$12 billion global Soviet commitment.

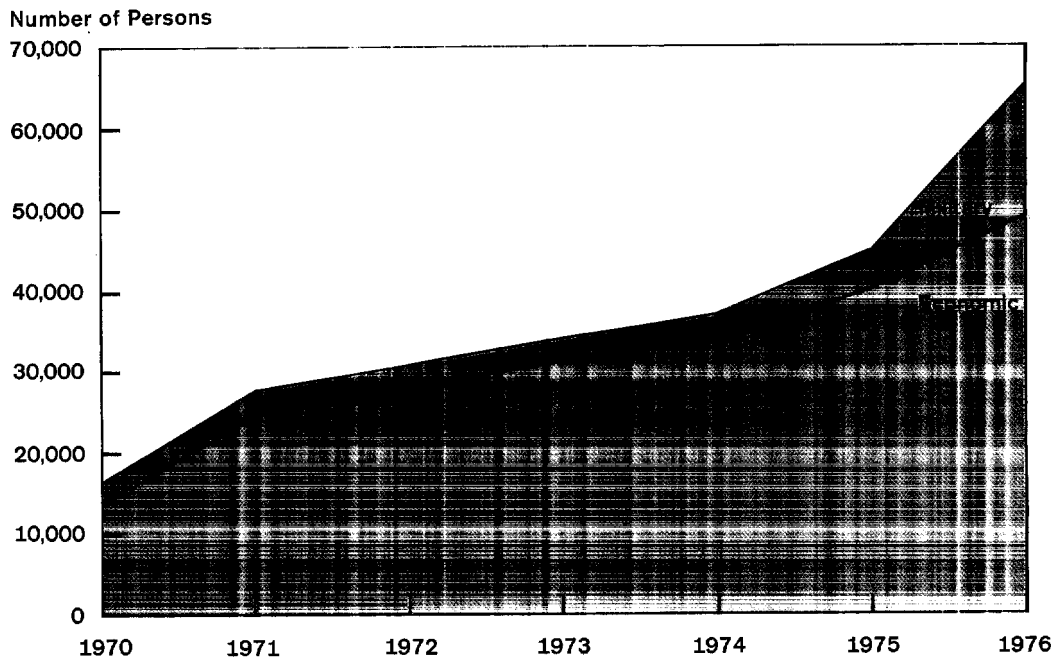
Algeria

Soviet-Algerian relations were strengthened in 1976 by Moscow's support for Algeria's position on Western Sahara and Algerian cooperation in making the Algiers airport available during the Angola crisis. Recent Soviet military deliveries to Algeria have included MIG-21 jet fighters and tanks to support Algeria's position on Western Sahara.

Africa: Communist Agreements, 1954-76 Figure 4



Communist Technicians Present¹



¹Minimum estimates of persons present for one month or more

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Although Algeria's commercial and economic ties remained more closely linked to the West, Algiers accepted in April a record credit from Moscow, its first major new Soviet assistance since 1971. The \$290 million in 10-year, 4-percent credits was allocated for an aluminum plant at M'Sila, on which design work had already begun at the end of the year. The 140,000-metric ton plant will also include a 600-megawatt power plant, training facilities, and possibly a rail line from the port of Bejaia to the construction site. Negotiations began almost immediately on plans to double the plant's capacity when the first stage is completed in 1982.

An Algerian-Soviet joint commission, which met in January, also suggested consideration of Soviet assistance for a heavy machinery and electrical complex, a dam, a steel mill in western Algeria, and a railroad. Late in the year Moscow announced that it was studying possible construction of a number of oil refineries.

Until now, Moscow's most important contribution to Algeria's economic development had been \$300 million in credits for a 2-million-ton steel mill at Annaba. The 1978 target for capacity operations at the plant may not be met because work on a blast furnace and coke batteries fell slightly behind schedule in 1976.

Although East European countries made no new economic aid commitments to Algeria in 1976, activities under the \$500 million worth of development assistance pledged Algeria in the past six years accelerated.

- East Germany began surveys for a foundry complex to be built at Tiaret with \$90 million in East German credits.
- East Germany and Czechoslovakia inaugurated construction of a joint \$67 million pump plant at Medea.
- Bulgaria will expand the 115,000 hectares of land already reclaimed by its contractors with waters from a major dam it is building at Mitidja.
- Hungary completed a technical school in Oran, and Poland agreed to establish 10 state farms.
- Romania began delivery of petroleum rigs and designed a university center in Constantine.

China agreed to construct a rice-processing plant and several small agricultural projects.

Since the departure of the French in the 1960s, Algeria has relied heavily on Communist technicians not only for project assistance but also in administrative and professional roles. In 1976 the number of East European technicians rose above 4,100, while the number of Soviet technicians remained at 2,500.

Angola

Angola's new government moved quickly to formalize its new Soviet relationship with a Twenty-Year Friendship Agreement and large contracts for additional Soviet military supplies.

To take advantage of the MPLA victory and Moscow's enhanced image among radical black African states, the USSR is believed to have allocated a large share of its sub-Saharan African military aid to Angola in 1976 as Moscow replenished stocks depleted during the fighting and stepped up deliveries of new weapons systems, including jet fighters, modern tanks, and missiles.

Small Soviet economic aid allocations to Angola were outshone by East Germany's \$10 million donation of relief assistance. Moscow contributed one-half million dollars of medical supplies and equipment and agreed to 10-year credits for training centers, geological exploration, and agricultural development, the total value of which is not expected to exceed \$10 million. Bulgaria and Romania are studying agricultural and industrial projects, for which they may extend credits.

Ghana

Soviet-Ghanaian relations moved somewhat closer in 1976 with the first exchange of military attaches in more than a decade and resumption of several Nkrumah-era Soviet aid projects.

In October, Ghana and the USSR agreed to abandon the bilateral clearing arrangements established in 1961 in favor of hard-currency payments. The USSR agreed to resume activity at a concrete panel plant, a gold refinery, and a reactor for which Soviet equipment was provided before 1966. Moscow may now agree to reinstate an estimated \$60 million in expired credits for new projects.

China's small, but effective, agricultural program is dominated by the \$13 million Afife irrigation project, which is being built under \$42 million in reactivated credits.

Hungary, having completed a three-year study of Ghana's bauxite reserves, is studying participation in aluminum industry development. Romania agreed to study possible assistance for a brick and tile plant, a cement factory, road construction, and urban development, possibly under an old credit.

Guinea

Soviet interest continues high in Guinea. Conakry continued to give Moscow access to its airfields, oil storage, and naval facilities to support growing Soviet military operations in southern Africa in return for Soviet military deliveries, which totaled almost \$10 million last year.

Friction over the price Moscow pays Guinea for bauxite persisted throughout the year; and after preliminary agreement in August, negotiations were resumed in December. Moscow removed a major source of dissension, however, by agreeing to pay the Guinean export tax on Kindia bauxite, which Western producers had been paying for 2 years. Some 90 percent of Kindia's annual production of 2.5 million tons goes to the USSR, half as repayments on a \$92 million construction loan for the Kindia facility. Meanwhile the USSR continues a small program of technical assistance for agriculture, port development, and geological surveys.

Although work on Chinese projects was not disrupted, Peking's political relations with Guinea have not recovered from the falling out over support of the Soviet role in Angola. Two fishing trawlers were delivered in July under a 1972 Chinese credit. Technical assistance continued for agriculture, port development, and a match factory built with Chinese assistance.

Guinea maintained a low profile in its relations with East European countries. Trade with these countries continued the precipitous decline that began in 1974 and was aggravated by Conakry's cancellation of bilateral clearing agreements with them in 1975.

Libya

Libyan President Qadhafi's December visit to Moscow promoted a further warming of the Soviet-Libyan relationship. While Moscow views the Libyan connection as a means of putting pressure on Egypt, it also values Libya as an important cash customer. Discussion of further Soviet arms deliveries probably topped the agenda at the December meeting, and Libya's continuing requirements for technical assistance and training received priority treatment. East European contractors, with 10,000 personnel in the country, accelerated development activity in 1976.

A Major Soviet Arms Client

Moscow has accelerated deliveries under its 1974 \$1 billion military agreement with Libya. Receipts have included MIG-23 fighters, TU-22 medium bombers, surface-to-air and SCUD missile systems, and an array of modern ground equipment.

Qadhafi has made the Libyan armed forces the most heavily equipped in North Africa. Although Libya has already received more arms than its military can absorb, substantial amounts remain to be delivered under the 1974 agreement. The rapid growth in Libya's arms inventory has not been matched by an equivalent advance in the number or capability of its personnel. The undermanned, poorly trained Libyan military remains ineffective as a combat force and is unable to maintain its modern weaponry.

Economic Relations on the Upswing

During President Qadhafi's Moscow trip, the USSR agreed to construct \$1 billion worth of projects in Libya, probably all for cash. These include a nuclear power station (a project that has been under discussion for several years), a 600-kilometer gas pipeline from Brega to Misuratah to supply a proposed 1.7-million-ton iron and steel complex, a unified power grid, and three major training centers; the USSR also agreed to formulate a 25-year natural gas development plan. The USSR had agreed previously to construct an atomic research center near Tripoli and had signed a \$22 million contract to install two powerlines between Tripoli and outlying agricultural areas.

Soviet Technical Presence Will Increase

Present plans call for a sharp increase in the Russian technical presence in Libya, which previously was limited to a few oil advisers and doctors. Moscow expects to bring in hundreds of personnel to work on the atomic research center alone. While Qadhafi would prefer Libyan technicians in strategic sectors of the economy, he believes that he can isolate the Soviets and minimize their ideological influence. Qadhafi's fears of Soviet subversion apparently have been allayed to some extent by two years of Russian military presence.

Eastern Europe: Economic Presence Doubles

The East European countries' major interest in Libya lies in commercial activities and the supply of technical personnel. Libya's cash payments for East European equipment and services make such contracts exceedingly attractive.

Libya has hired large numbers of East European technicians over the past decade. In 1976 their number rose to about 10,000, the largest work contingent in any LDC, employed on at least half a billion dollars worth of development projects. Polish personnel were employed on road construction, port work, and agricultural development projects, while Romanians continued work on housing construction, oil and petrochemical development, roadbuilding, and animal husbandry. Hungarians made engineering studies for two railroads, and Czechoslovakia completed a geological study of coastal areas. Bulgaria worked off \$100 million in outstanding contracts for petroleum exploration and other development projects. East Germany joined the roster of East Europeans in Libya with an October contract to construct electric power and transportation projects.

Morocco

Morocco's concern that Soviet weaponry provided Algeria might be used against it in Western Sahara clouded the Rabat-Moscow relationship in 1976. China's neutrality in the Saharan dispute, however, enhanced its standing. Rabat signed new economic accords with Czechoslovakia and Poland.

Chill in Economic Relations

King Hassan's refusal to negotiate major new economic projects with the Soviets especially affected the Meskala phosphate project, for which a preliminary agreement had been drafted in 1975. At the end of the year, Moscow was still pressing for finalization of the \$5 billion, 20-year agreement, the largest the USSR has ever negotiated with a Third World country. Nonetheless, it was agreed that Moscow should continue geological prospecting, and the annual oil-for-citrus barter agreement, which called for a 40 percent increase in Soviet oil shipments in 1976, was renewed.

Rabat's relations with East European countries reflected the stability of their trade relationships. Poland, one of Morocco's major phosphate markets and its largest Communist trading partner, signed a protocol to continue assistance to the chemical and transportation sectors. Czechoslovakia provided a line of credit of unknown value in May for complete plants and possibly technical services. Power, sugar, cement, and textile plants were mentioned as possibilities for Czech financing. Romania began port development at Nador under a 1976 agreement, possibly a commercial accord, and Bucharest and Rabat agreed to joint ventures in copper development.

Chinese technicians began preliminary work on China's only aid project in Morocco, a sports stadium near Rabat being built under a \$32 million 1975 credit.

Mozambique

Following a decade of Communist political and financial support, the revolutionary government of Mozambique has continued to rely heavily on Communist aid since independence in mid-1975. Although the Communists were slow to provide financial assistance, they sent several hundred nonmilitary technicians to fill the technical gap left by the departure of Western specialists. Chinese and North Korean personnel worked mainly in agriculture, Cubans surveyed Mozambique's sugar estates, and Soviets and East Europeans were employed as doctors, teachers, agricultural technicians, and administrators.

The USSR provided further guarantees of reconstruction aid under a June agreement.

build a port and a technical school has not been acted on.

Madagascar's radical socialist government still relies on Western suppliers, but new Communist economic agreements in 1976 helped move it closer to Communist countries. China agreed to construct a sugar refinery, a farm implements plant, a porcelain factory, and a model farm and to improve a 150-km road for all-weather travel between Tananarive and the port of Tamatave. Moscow moved to provide personnel and equipment for a merchant marine school, for the University of Tananarive, and for geological surveys agreed to under a December 1975 accord. Soviet technical personnel also studied possible 10-year credits for prefabricated housing, a cement plant, a flour mill, a hydropower plant and irrigation works, a cotton plantation, and three university centers. Romania sent technicians to operate Madagascar's only oil refinery at Tamatave after its surprise nationalization in June.

Mali received sophisticated aircraft for the first time, reflecting Soviet interest in maintaining access to Mali's military support facilities for its southern African ventures. Previously MIG-17s had been the most advanced aircraft in Mali's inventory. Following the visit of Mali's Minister of Defense to Moscow late in August, the USSR airlifted MIG-21 fighters. Although the USSR and China have each delivered about the same amount of economic aid (\$65 million) over the past 15 years, China has played a more active role in Mali's economic development, especially in agriculture. In 1976, China agreed to build a third sugar mill at Sikasso and to expand a recently completed Chinese-built rice mill at Sevare. Peking is also continuing an expansion of the Chinese-built textile mill at Segou and has installed new equipment for Radio Mali. Moscow's only active project is the gold mine at Kalana, for which the USSR has provided \$17 million in credits.

A *Nigerian* delegation went to Moscow in December to resume negotiations on Soviet participation in the Ajaokuta steel mill, which was opened to international bidding earlier in the year because of the inability of the two sides to reach agreement. Nonetheless, Nigeria awarded Moscow a \$137 million contract to act as general contractor for 800 km of oil pipeline. Poland

agreed to a four-month geological survey, which may draw on a \$24 million 1971 credit. In 1976, some 100 Chinese personnel provided technical assistance to rice projects, water-well drilling, and a small industrial training center. This activity is governed by a 1974 technical assistance agreement, provisions of which were never announced.

In *Rwanda*, Chinese personnel continued work on the \$16 million Kigali-Rusomo Road and turned over to Rwandan management a rice project at Kigali, which was completed in 1976. These activities are being financed under \$22 million in credits extended in 1972.

Sao Tome and Principe signed a general agreement on economic and technical cooperation with the USSR in October, similar to one signed last year with China. No activity was noted under either agreement.

Senegal, calling on Communist nations for more support to LDC development programs, concluded new agreements with Poland and Romania in 1976. Poland agreed to provide \$35 million in fisheries assistance over a 10-year period, \$17 million of which will be allocated for trawlers, refrigerator boats, and port and processing equipment. Romania's agreement was for cooperation in mining, industry, and rural development, but no credits are known to have been provided. China, still the only active Communist donor in Senegal, continued work on dams, rice projects, and an athletic stadium under a 1973 \$49 million credit.

Sierra Leone signed its first fisheries agreement with the USSR early in 1976. Moscow will provide research ships and trawlers as well as training. Joint ventures for fish processing industries may be arranged later. China completed the Mangeh Bridge, financed under a 1971 \$30 million credit, and turned over eight agricultural stations it has established in the country.

The USSR promised *Tunisia* its first new economic aid in almost a decade. The \$55 million commitment will be used for dam and irrigation projects and expansion of the Soviet-built technical institute in Tunis. Commodity shipments allowed under the credit should facilitate construction by generating local funds. Czechoslovakia also extended new 10-year credits totaling \$30 million for equipment purchases.

Uganda received MIG-21 jet fighters from the USSR in 1976 as replacements for MIGs damaged or destroyed by the Israeli raid on Entebbe in July. The deliveries presumably brought Ugandan inventories back to their preraid complement.

Upper Volta took over the Kou Valley rice project from China early in 1976. The 250-hectare project, for which Peking assumed responsibility from the Republic of China in 1973, had been financed under a \$48 million credit. Late in the year, China agreed to build a cement factory and a road under credits remaining from the 1973 agreement.

In *Zaire*, Peking accelerated work on projects under a \$100 million aid package. Preliminary work on a sports stadium proceeded, and technical assistance continued at several experimental farms, a sugar plantation and refinery, and a hospital. China's influence as a development model remained strong, even though *Zaire's* deteriorating economic situation forced the government to rescind some of the more radical "Chinese-like" nationalization measures instituted after Mobutu's 1974 trip to China.

Zambia shared equally with Tanzania in the \$55 million in Chinese aid to cover cost overruns on the Tan-Zam railroad. With railway construction completed, most of the large contingent of Chinese workers will probably work on rural development schemes and on the Serenje-Samfua Road being constructed under a 1974 agreement. Little other Communist activity took place in *Zambia* in 1976. The USSR continued work on diesel power plants under a 1967 credit, while Czechoslovakia completed geological surveys in northern *Zambia*.

East Asia

Communist-East Asian contacts expanded in 1976 as both the USSR and China pursued broader commercial ties with businessmen in the region and Moscow sought new port facilities to support its fishing fleet.

Tonga and *Papua New Guinea* were among the island nations that received Soviet offers to improve port and fishing facilities in return for services to the Soviet fleet. *Western Samoa* signed an economic assistance agreement with China that eventually may provide credits.

Moscow's most dramatic overture was a \$300 million offer to *Indonesia* for a 600,000-ton alumina plant on Bintan Island. The plant would supply the Asahan aluminum smelter being constructed by the Japanese and still allow 150,000 tons annually for repayment of the Soviet loan. Moscow also offered to construct two associated power plants at a cost of \$120 million.

Establishment of Soviet-*Philippine* diplomatic relations and the signing of Manila's first trade agreement with Moscow had little effect on their economic relations in 1976. The trade agreement calls for settlement in convertible currency and mentions possible Soviet credits to be negotiated separately. Hard bargaining with Romania produced a \$5 million credit for trucks and other vehicles, and China continued oil sales under a 1974 five-year agreement. A Chinese-Philippine trade committee was formed to help redress the trade imbalance, which in 1975 was more than \$20 million in China's favor.

Singapore's first joint fishing company with the Soviets (Marissco) started operations in 1976. The company plans to build processing and storage facilities at Jurong to accommodate the Soviet fleet's Southeast Asian catch. The new facilities would make *Singapore* the largest fish processor in the area. *Singapore* also signed an agreement with Romania for a joint commission to study increased economic exchanges.

Latin America

Summary

Moscow moved to exploit the Latin American arms market with offers in 1976 to Argentina and Colombia. While these deals were not consummated during the year, the Soviets made further important inroads into Peru's market to become Lima's principal arms supplier. A \$250 million order by the Peruvian air force was Moscow's first sale of jet aircraft to Latin America.

The Communist economic program in Latin America retained its commercial thrust as a means of cutting recent billion-dollar trade deficits with the area. Last year, the Soviet-Latin American deficit alone topped \$850 million. Communist countries have hinted that failure to redress the huge imbalances of recent years could force Communist grain and food buyers into

Contracts for iron ore, coal, and bauxite surveys were signed, and Moscow agreed to dispatch irrigation experts, harbor pilots, and transportation and cement experts.

Communist countries increased their military commitments of men and material following Mozambican President Machel's call for help in defending Mozambique against Rhodesian cross-border operations. Supply agreements were signed with the USSR, but their values are not known. The influx of Communist personnel was heavy throughout the year, allowing Mozambique the services of at least 500 military technicians. Most of these advisers came from Cuba to train the regular army and the militia.

Somalia

Soviet military and economic support and a large contingent of Soviet personnel have given Moscow an important foothold in Somalia and the use of a naval base and airfield as well as port facilities on the Red Sea. Moscow's military supply operation in the past several years and its continuing heavy technical assistance (at least 1,000 technicians spread through all levels of the military) have enabled Somalia to develop one of the most formidable fighting forces in sub-Saharan Africa. (In early 1977, however, Soviet arms supplies to Ethiopia began to erode Mogadiscio's longstanding relationship with Moscow.)

Confident that the momentum of the military supply program and 1975's record \$60 million commitment for economic development would sustain economic relations, Moscow was not responsive to Somali requests for new development projects.

The most important project under way is the Giuba Dam, which will generate 5,000 kilowatts of electric power and irrigate 8,300 hectares of land when completed. The project, however, will never live up to its advance billing as "Somalia's Aswan Dam," with only \$19 million allocated to it and work continuing at a snail's pace. The 1,000 Soviet economic technicians in Somalia provide medical and advisory services, give assistance to the fishing industry, install oil storage tanks at Somali ports, and furnish support to problem-ridden, Soviet-built food processing plants. Soviet personnel are also helping settle 130,000 nomad refugees from drought-stricken

areas into fishing villages and agricultural settlements along the coast.

East European countries and Cuba were increasingly visible in supporting Soviet objectives. Bulgaria, Romania, and possibly Hungary signed agreements for possible project assistance to Somalia. Bulgaria already is providing assistance for tin mining. Arab states pledged \$250 million in development assistance to Mogadiscio in 1976 in hopes of weaning Somalia away from the Soviets.

Meanwhile, China continued the unobtrusive support that has won it praise from Somali officials. In June, a 360-km section of the Belet Uen-Burao Road, built under a 1971 credit, was opened to traffic. The 970-km road project will have drawn \$67 million from Chinese credits when it is completed in 1978. In 1976, China also completed a hospital and continued work on a sports complex under the 1971 credit.

Sudan

The thaw in Soviet-Sudanese relations of late 1975 was reversed in July when Libyan-supported dissidents, using Soviet arms, tried to overthrow the Numayri regime. The abortive coup followed Moscow's gift of MIG jet fighters—the first such Soviet aircraft to Sudan since 1971. Sudan is now pushing ahead with plans to modernize its military establishment with Western arms financed by Saudi Arabia.

Khartoum and Moscow did, however, sign a contract in October to continue a Soviet manganese and iron ore survey under a small 1969 credit that had already financed other mineral surveys.

China, whose economic assistance program has earned it the highest marks among Communist donors, accelerated activity under \$82 million in credits extended in the early 1970s. The Chinese completed a section of the Wad Medani-Gedaref Highway, and a textile mill and conference hall in Khartoum were inaugurated.

Tanzania

Tanzania continued to shift its dependence for military supplies from China to the USSR. A part of the Soviet deliveries were for insurgent groups operating out of Tanzania, and Communist

military advisers in Tanzania also helped train such groups.

The USSR's military presence in Tanzania has been accompanied by a renewed interest in economic cooperation—a marginal effort until now. The USSR signed an agreement in July for a \$24 million hydropower project at Kiwira Falls, its largest such undertaking in sub-Saharan Africa.

Wrapping up five years of construction activity on the Tan-Zam railroad, China handed the system over to the Tan-Zam Railroad Authority in July and announced that it would absorb \$55 million in cost overruns. This brought Peking's contribution to the project to \$455 million. With about a fourth of Tan-Zam's 20,000-ton-a-day scheduled freight capacity currently being carried, the railroad is easing transportation bottlenecks in Zambia caused by closure of routes through Angola and Rhodesia. China allowed 1,000 railroad technicians to remain in Tanzania for another two years to assist in operations, maintenance, and training. Some Chinese that had worked on the railroad were shifted to iron and coal development work and to building a spur line. Meanwhile, Zanzibar is phasing out Chinese assistance, until recently its most active aid program, and turning to non-Communist sources for assistance to light industry.

Other African Countries

Moscow signed protocols to implement a \$5.3 million credit to *Benin*, apparently extended in 1974, allocating \$2 million to geological research. Other projects under study include establishment of a bus system and fisheries development. China completed a rice project, which it took over from Taiwan in 1973, and began work on a sports complex and an experimental farm under a 1972 \$44 million credit. Romania signed an economic agreement, but the terms are not known.

Botswana, in a major policy switch, concluded its first Communist economic accord with China in 1976. A team of Chinese technicians, which arrived in September to assess Botswana's development needs, will recommend commitments to specific projects. Credits for agriculture and light industry probably will be made available.

The *Cape Verde Islands* signed a general economic and technical cooperation agreement

with the USSR in November, its first with a Communist country.

The *Central African Empire's* resumption of diplomatic relations with China in August was followed by agreement to reinstate Peking's economic program that probably will initially involve agricultural and medical technical assistance projects that Taiwan had been operating. Romania, the only Communist country with ongoing projects, increased its joint participation in lumber, mining, and cotton ventures.

The *Comoro Islands* signed an agreement for economic and technical cooperation with China in June, making Peking the first Communist country to establish formal economic ties with the island nation. The visit of a Comoran trade delegation was followed by a Comoran visit to Peking in September to arrange for commodity imports to generate local funds for projects under the agreement.

In *Equatorial Guinea*, the number of Chinese is expected to increase when construction begins on a power station and transmission lines that China agreed to build in May.

Moscow extended its first project assistance to *Guinea-Bissau* in September, a \$13 million, 12-year interest-free credit allocated partly to bauxite development. The agreement also provides \$3 million for commodities. The USSR had previously given Guinea-Bissau a \$500,000 fishing trawler as a gift.

The *Ivory Coast* signed its first Communist economic cooperation agreement with Romania in June. The general accord calls for cooperation in agriculture, forestry, mining, and other industries, possibly on a joint venture basis.

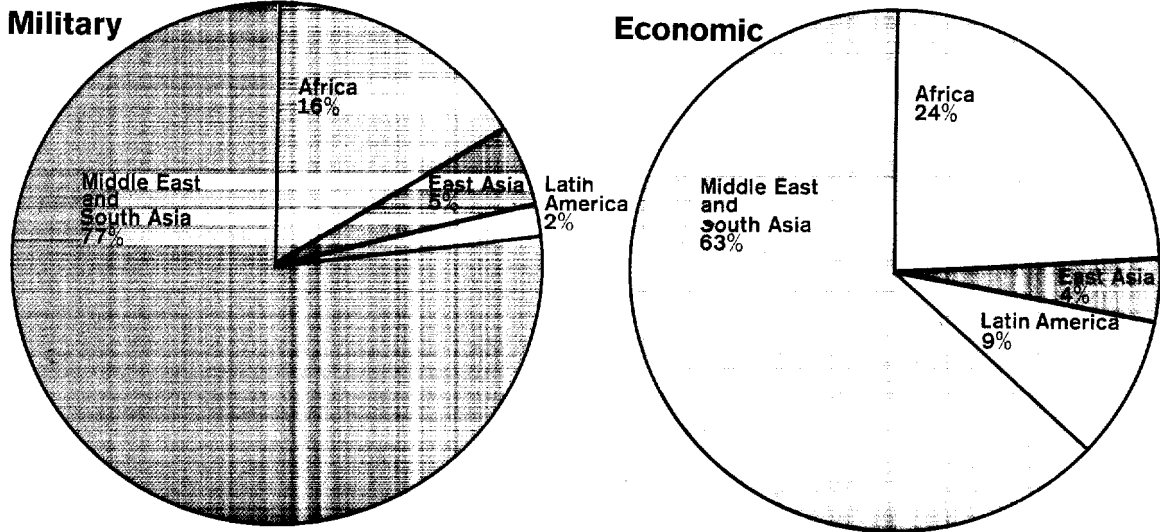
Kenya has shown receptivity to Chinese offers and is studying a Chinese proposal to supply equipment and technical expertise for textile plants, a rice mill, a brick plant, and a small hydroelectric plant under UN Development Program auspices.

Liberia moved gradually to enhance its African and nonaligned credentials by upgrading relations with Hungary and Cuba. A Romanian joint venture for rubber processing—Liberia's first Communist project—was completed, and similar joint ventures for a tire plant and agriculture were being planned. A 1974 Soviet proposal to

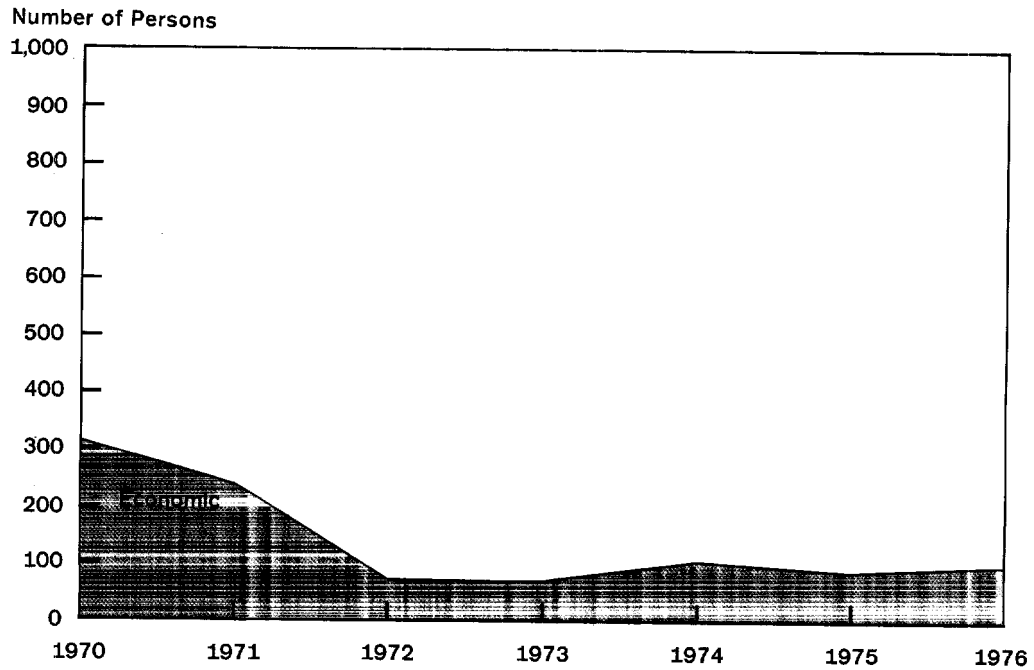
East Asia:

Figure 5

Communist Agreements, 1954-76



Communist Technicians Present¹

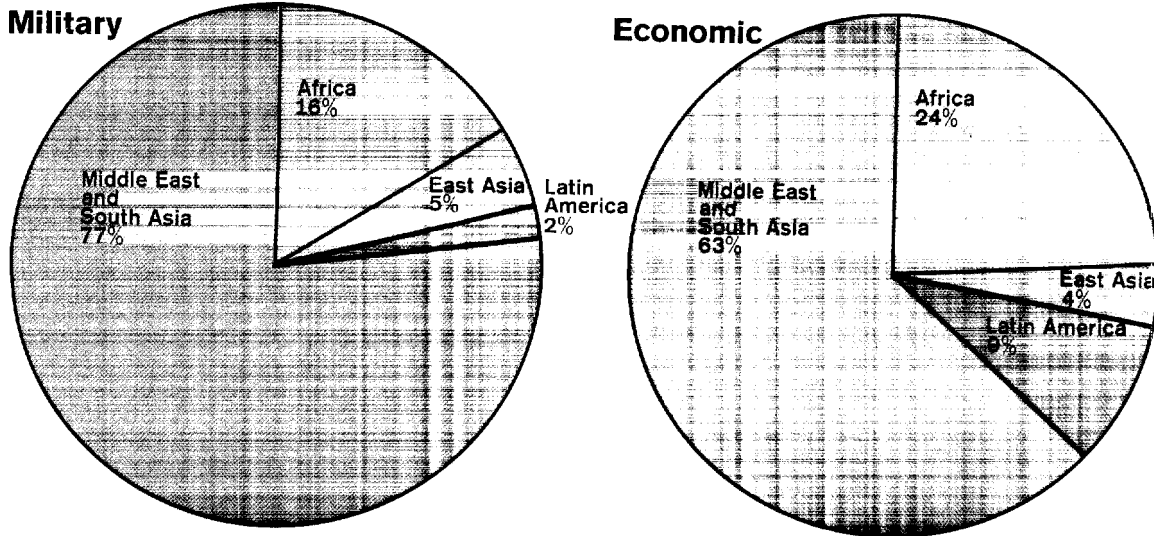


¹Minimum estimates of persons present for one month or more

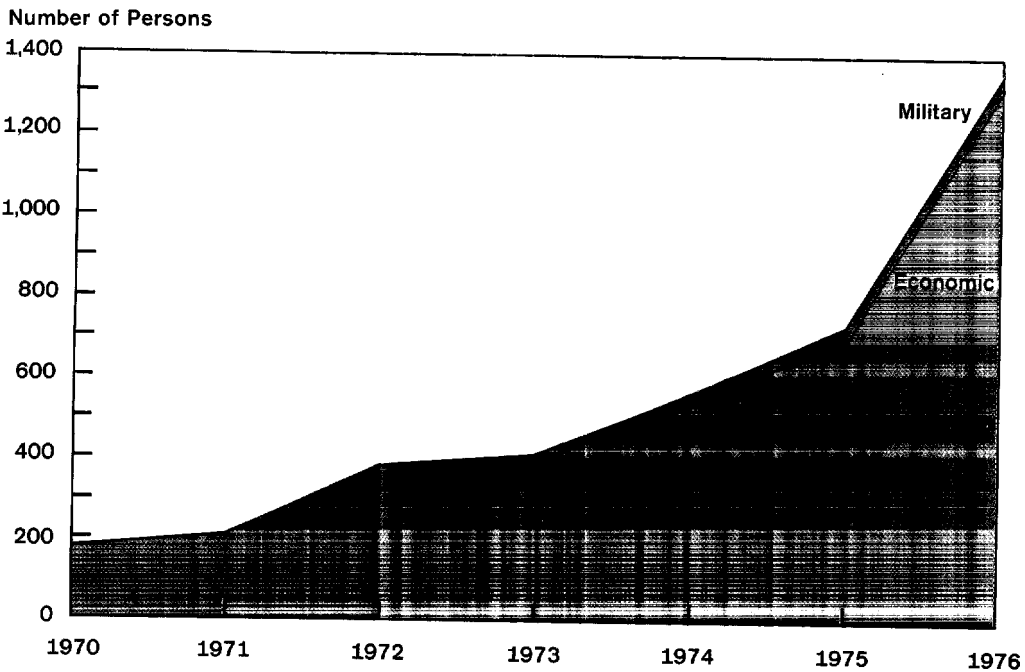
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Latin America: Communist Agreements, 1954-76

Figure 6



Communist Technicians Present ¹



¹ Minimum estimates of persons present for one month or more.

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other markets. As a followup, they offered \$300 million in trade credits to Latin American raw materials suppliers in 1976. Some \$155 million of new agreements were signed, despite Latin America's traditional preference for Western machinery and equipment that has left \$1.5 billion of previous Communist credits unspent. Communist officials hope that credits will be drawn on as the deficits of major Latin American traders persist with the rest of the world.

Open-ended trade credits, for which limits and terms have not been set, were the only kind of Communist credits provided in 1976.

- Peru signed an agreement with the USSR that could result in commitments to finance up to a third of Peru's \$300 million Olmos hydroelectric project.
- Mexico signed general economic agreements with most Communist states that may eventually provide credits.
- Bolivia and Peru were offered Polish aid for coal development.
- Chile and Peru were promised aid for their petroleum industries by Romania.

Argentina

Trade continued to dominate Argentine-Communist relations in 1976 as Soviet trade went farther into the red with larger purchases of Argentine meat and grain. East European countries also ran huge deficits with Argentina because of grain purchases required to offset the effects of the European drought. As part of a Soviet drive to balance its trade accounts, Moscow offered assistance to fisheries and coal mining and offered to participate in the \$2 billion Parana Medio hydroelectric project.

The USSR already has signed contracts valued at \$175 million to construct four power plants in Argentina.

Colombia

Offers of Communist assistance to Colombia approached the \$200 million mark in 1976, following Bogota's announcement that it would welcome association with the Council for Mutual Economic Cooperation (CEMA). Until then, Colombia had received only \$15 million in credits from this group of countries.

Moscow made the largest offer—assistance for oil development, transportation, and public health as well as a \$140 million equipment credit for the \$400 million Alto Sinu power project. The 10-year credits probably would be provided under a March 1975 agreement, on which no credit limit had been placed.

East European activity was spearheaded by a \$50 million East German equipment credit, apparently negotiated late in 1975, and by Polish and Romanian general economic cooperation agreements. Financial details on the latter agreements were not announced. The September pact with Warsaw calls for assistance in building a sulfuric acid plant, sugar mills, and textile plants. The Romanian agreement, reached after two years of negotiations, calls for joint oil field development and coal exploration.

Peru

The Soviets are moving to improve their position in Peru, where they already have a substantial investment. Military agreements estimated at \$250 million in 1976 placed Peru among the Soviet big-10 arms clients and made Moscow a ranking supplier of Lima's defense establishment.

First Air Force Purchase

Lima's order for 36 SU-22 supersonic fighter-bombers is Peru's largest military agreement with Moscow and its first order for jet aircraft from the USSR. Before 1976, Lima confined its arms purchases in the Soviet Union to sophisticated land armaments and helicopters for the army.

Economic Relations Accelerated

Clearly designed to close Moscow's large trade deficit with Peru (\$85 million in 1976), an economic agreement signed in November provides 10-year credits at 4 to 5 percent interest for unlimited purchases of Soviet goods. The first contract under the agreement was for electric generators for the Olmos hydroelectric project, which eventually could absorb \$100 million in Soviet financing. Credits also may be drawn for constructing a steel plant at Nazca and a machinery and equipment plant at Arequipa, both of which are currently under survey. Meanwhile, Soviet technicians are working at the

Paita fishing complex and the Andean fuel storage project under a \$25 million 1970 credit.

Late in 1976, Hungary agreed to provide equipment for some power plants under \$60 million worth of outstanding credits extended in 1972 and 1974. New agreements with Bulgaria, Czechoslovakia, Poland, and Romania also call for faster use of \$90 million in old credits.

China agreed to provide irrigation equipment under a 1971 \$42 million credit reinstated late last year. Peking also agreed to import \$57 million worth of metals and fishmeal and to sell \$23 million of rice and kerosene.

Other Latin American Countries

A Soviet agreement in March 1976 extended 10-year credits bearing interest up to 5 percent to *Bolivia* for machinery and equipment. The credits probably will cover cost overruns at the Soviet-built Potosi tin processing plant, for which a 1970 agreement had allocated \$7 million. A second tin plant at Marchamarca, also to be financed from the 1970 credit, now has the go-ahead signal. Moscow agreed to provide a power plant for a \$120 million lead and silver foundry at Potosi, although the extent of the USSR's involvement is not clear. Poland began work on a \$5 million sheet glass factory agreed to in 1973 and signed new long-term trade and economic cooperation agreements, with assistance scheduled for the coal and chemical industries and for transportation. Romania sold locomotives under a \$16 million commercial agreement signed in August, and Czechoslovakia began work on a \$2 million iron alloy foundry under a 1975 agreement.

Brazil received the second largest East European credit in 1976, \$100 million from Czechoslovakia to finance equipment purchases. Brazil's relations with Communist countries are confined largely to trade, and failure to eliminate the large Soviet and East European deficits (\$385 million for the USSR alone in 1976) continues to cause friction. Communist countries have been largely unsuccessful in expanding machinery and equipment sales on credit to reduce these imbalances.

Cuba has been *Jamaica's* largest and most active Communist aid donor. In 1976, more than 280 Cubans were working on education, housing, and medical projects as well as six small dams

provided under a technical assistance agreement signed early in the year. Most of the Cuban assistance is grant aid. Jamaica's only other Communist aid is a \$9 million 1976 Chinese allocation under a 1974 agreement for a polyester and cotton textile plant and a \$1 million six-year credit extended in 1976 for 5,000 tons of Chinese rice.

Mexico signed its first economic cooperation agreements with Communist countries in 1976. Most of the accords are agreements in principle for which actual credit allocations await further technical studies. An October agreement with the USSR offered hydroelectric, coal mining, and petroleum equipment, while a pact with Poland calls for construction of Latin America's largest coal mine. A Mexican-Romanian accord was for the exchange of petroleum technology and Mexican construction of an offshore drilling rig to be installed in the Black Sea. In July Mexico ratified the CEMA agreement it had negotiated in 1975, and in August a delegation from CEMA arrived to discuss cooperation in fishing, petrochemicals, telecommunications, and light industry. Subsequent negotiations in October did not produce any agreements.

Venezuela and the USSR signed their first economic cooperation agreement in November, calling for the development of projects suitable for Soviet participation. In July, a Soviet delegation had discussed assistance for developing heavy oil deposits in the Orinoco region.

Middle East and South Asia

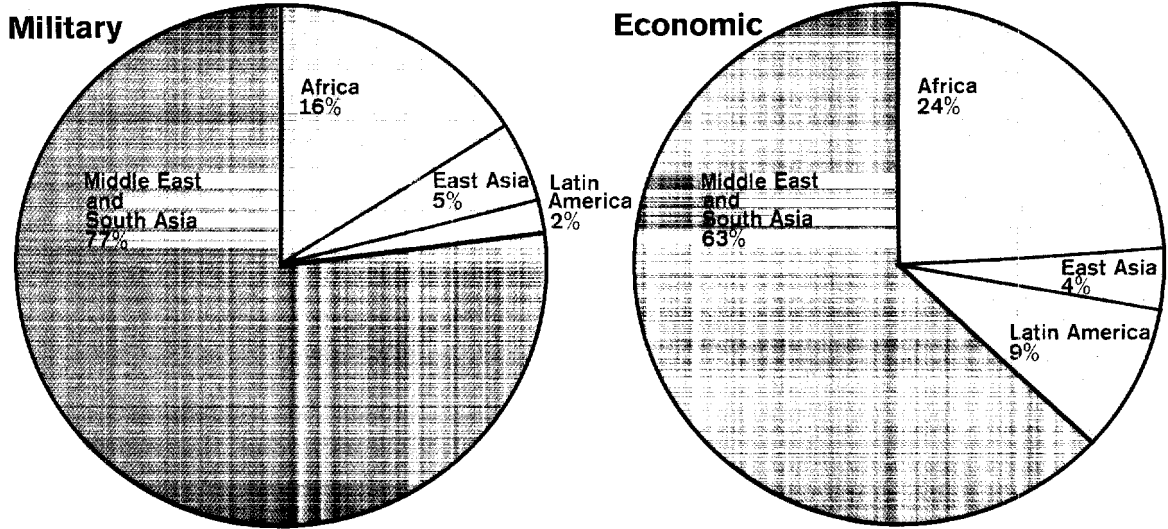
Summary

Moscow faced strong competition in the Middle East from wealthy Arab states that used their financial power to keep neighboring states out of the Communist camp. This policy was especially successful in Egypt, which abrogated its friendship treaty with the USSR in March, and in Jordan, where a Soviet air defense system was turned down in favor of a more costly US package financed by Saudi Arabia. Syria, pursuing a more independent policy than before, ignored Soviet displeasure with its course in Lebanon. Hoping to keep a foothold in a major Middle East country, Moscow promised Iraq an unprecedented amount of military equipment,

Middle East and South Asia:

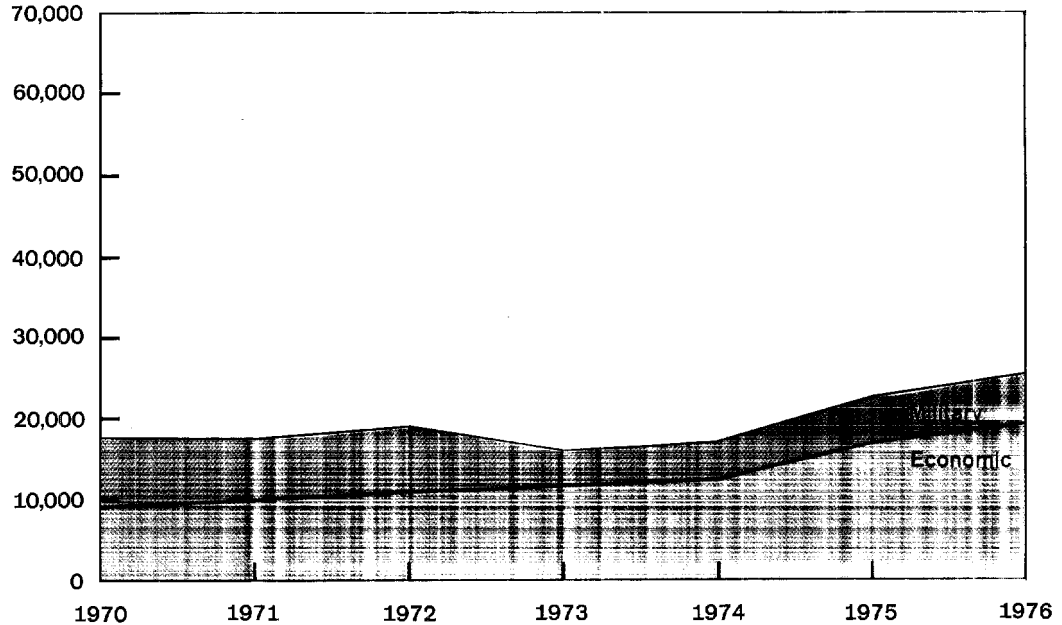
Figure 7

Communist Agreements, 1954-76



Communist Technicians Present ¹

Number of Persons



¹Minimum estimates of persons present for one month or more

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including the newest weapons systems, and expanded development assistance.

Moscow again used arms to try to manipulate LDC political positions by cutting arms shipments to Syria sharply and keeping shipments to Egypt at only a trickle. Moscow, however, continued to provide economic assistance and to trade actively with countries that had drawn away from Soviet influence.

By the end of 1976, the Middle East, long the favored Soviet client area, had received Soviet commitments of almost \$4.6 billion in economic aid and \$13 billion in military commitments. Moscow's more than \$1 billion military agreement with Iraq in 1976 was backed up with economic credits and over \$1 billion in commercial contracts for water and power development.

The Soviet-Iranian relationship was marked in 1976 by expanding commercial ties and the largest contingent of Soviet economic technicians in any LDC. Because of the long border they share, Iran's large exports of natural gas to the USSR, and more recently Iran's oil wealth, Tehran has become Moscow's largest customer for machinery and equipment in the Third World.

The South Asian scene is dominated by Moscow's continuing economic and military relationship with India. For over a decade, Moscow has cultivated its South Asian neighbors, which rank with Middle Eastern states as major recipients. New economic pacts with India, including an oil barter deal, helped clear away some differences that have plagued relations for several years.

Afghanistan

Despite Afghanistan's recent success on attracting \$800 million in new development commitments from OPEC members, the USSR continues as Afghanistan's most important source of economic and military aid and its principal trading partner. Moscow's \$1.3 billion economic aid program created Kabul's natural gas and petroleum industry and is responsible for a large part of Kabul's modern infrastructure.

Sustained Economic Relations

A five-year Soviet-Afghani trade agreement (their first long-term trade accord) set the tone

for Moscow's continuing close relationship with Kabul in 1976. The new accord is designed to increase trade 65 percent by 1980. Protocols signed during the year will also expand Moscow's already substantial contribution to Afghanistan's petroleum, gas, power, and agricultural development, with credits to be drawn mostly from \$425 million of aid extended in 1975 for Afghanistan's Fifth Plan (21 March 1977 to 20 March 1982).

Soviet aid to Kabul's oil and gas industry topped \$200 million with the signing of a \$56 million contract for a gas desulfurization plant at Jeraquduq. The Russians will expand their contribution to the industry as the oil deposits at Angot are developed and construction of a 200,000-ton oil refinery at Shibarghan gets under way.

The Soviets moved ahead in 1976 with irrigation work along the Amu River, which eventually will bring 100,000 hectares under cultivation, and began surveys for a dam and power project at Kelagay. Moscow also initiated surveys for two chemical plants during the year.

Among other Communist countries, China was most active. Peking completed an irrigation project in the Parwan area and made plans to expand the program. It also continued work on a hospital at Kandahar and a textile mill at Bagram and signed a protocol to build a paper mill. Czechoslovakia was awarded contracts for coal mining and for building a cement plant at Herat, which it will undertake with credits extended in 1973.

Egypt

Although the Soviets did not resume major arms deliveries to Egypt in 1976 and provided no new economic aid, Moscow continued to fulfill its commitments under existing economic agreements.

Military Relations

The cutoff of virtually all Soviet arms shipments to Cairo is going into its third year, with only a small trickle of Soviet arms still coming in. Deliveries in 1976 consisted mostly of Egyptian equipment being returned after servicing. Turning to other Communist countries, Egypt signed an agreement with China for aircraft and tank engines. Egypt also tried unsuccessfully to obtain spares from India.

Economic Relations Continue

Soviet economic personnel continued to work on projects that were under construction before the Friendship Treaty was abrogated in March. The USSR continued to provide fisheries aid, expanded assistance to agriculture and rural electrification, and proceeded with work on cement plants and textile mills. Expansion of the steel mill at Hulwan and the Naja Hammadi aluminum plant—Moscow's largest ongoing projects in Egypt—were on schedule, boosting steel and rolled iron production in 1976. According to Soviet claims, electrical output at Aswan also increased, providing more than half of Egypt's electricity. Soviet assistance also has been responsible for electrification of more than 2,000 Egyptian villages.

The Debt Issue

The April Soviet-Egyptian trade protocol called for \$500 million worth of Egyptian exports and \$320 million worth of imports in 1976, with the \$180 million surplus used to service Egypt's economic and military debt with the USSR. Although for several years the trade protocols have been used for de facto annual debt settlement, Moscow is now demanding that Cairo sign a formal 20-year rescheduling agreement, with repayment of the \$5 billion military and economic debt to begin immediately. Egypt has requested a 10-year moratorium. Stretching into their third year of negotiations, debt questions remained unresolved as Moscow canceled a delegation visit to Cairo late in December.

India

Soviet-Indian agreements in 1976 paved the way for closer economic ties despite Moscow's sagging development aid program.

The New Initiatives

Following several years of hard bargaining with the USSR, New Delhi won a major negotiating victory in 1976 with the signing of a four-year agreement under which 5.5 million tons of Soviet crude oil will be bartered for pig iron, steel, and other nontraditional Indian exports. The advantage was clearly India's, which

will save about \$100 million worth of foreign exchange annually while receiving about 10 percent of its petroleum requirements in exchange for products that are often difficult to sell on world markets.

Also of importance are several contracts under which the output of Soviet-built plants in India will be used in Soviet-financed projects in third countries. One such contract covers equipment purchases from the Soviet-built foundry at Ranchi for a metallurgical project in Egypt. Other agreements call for Indian shipments to Soviet projects in Bulgaria, Cuba, and Yugoslavia. The new agreements will help expand Soviet-Indian nonpetroleum trade to over \$1 billion annually by 1980, as envisioned in the five-year agreement signed in March.

Aid Relations: Net Resource Outflow Continues

Soviet aid deliveries for India's economic development have been small for over a decade. No new development credits have been extended since 1966, and \$475 million remains to be drawn on the \$1.6 billion worth of aid extended between 1955-66. The near doubling of Soviet project aid disbursements to \$40 million in 1976 is still only half the mid-1960s peak and has done little to stem the growing net outflow of Indian resources to the USSR in repayment for economic aid. A sharp rise in India's debt service in 1976, because of additional payments due for Soviet grain shipments under a 1973 agreement, resulted in a reverse flow approaching \$100 million. The 1976 trade agreement calls for Indian service payments of \$325 million annually by 1980 on its combined economic and military debt to the USSR. India claims that Soviet proposals for devaluation of the rupee in terms of the ruble would add \$500 million to its repayment burden.

Iran

The USSR and Iran signed industrial accords of greater value than in any previous year. Negotiations throughout the year set the stage for further Soviet-Iranian cooperation in building large new heavy industrial projects in both countries. Major transport bottlenecks at Gulf ports and along the Soviet-Iranian border, however, continued to delay Soviet shipments to aid projects in Iran.

Soviet Economic Relations: Growing Commercial Transactions

Iran has become Moscow's largest LDC customer for machinery and equipment, largely as an outgrowth of the aid relationship. The aid program, which began in 1963 with a joint border irrigation and power project, has led to commitments totaling \$750 million and trade that skyrocketed from \$30 million in 1963 to \$700 million in 1975.

Commercial relations moved into the forefront in 1975 with the signing of a \$3 billion industrial cooperation plan for enterprises in both the USSR and Iran. Tehran is considering funding a paper plant in the USSR to be paid for from the plant's output. In 1976, Iran awarded Moscow more than \$1 billion worth of commercial contracts, including purchases of equipment for a heavy machinery complex at Esfahan and a foundry forge complex at Kerman (the largest of its type in the world). The USSR also began work on a second dam on the Aras River to irrigate 120,000 hectares on each side of the Soviet-Iranian border and provide each country with 100 MW of electricity. Moscow also plans to expand to 8 million tons annually the capacity of the steel mill at Isfahan built with \$500 million of Soviet aid; it also will build a 600-MW thermal power station at Ahwaz, possibly a \$500 million aluminum plant, and is expected to participate in the construction of a second gas pipeline.

East European Relations

Bulgaria, Hungary, and Poland concluded a series of agreements in 1976 that increased aid allocations to Iranian agriculture, irrigation, and food processing under existing credits. Bulgaria contracted to build a 100,000-ton cold storage facility; Hungary will continue assistance for state farms; and Poland is to build new sugar mills and other food processing plants.

East Germany's commitment to supply cold storage plants, railway equipment and maintenance shops, heavy industrial machinery, and optics involved new credits of unknown amounts. Romania financed a new Iranian purchase of railway cars and agreed to proceed with new joint ventures in petrochemicals and cement. A \$2.5 billion 20-year contract for the supply of 3.6 billion cubic meters of gas annually to Czechoslo-

vakia is Prague's largest agreement ever signed with a Third World country. The contract is part of an Iranian-Soviet-West European triangular gas deal.

East European countries also took other steps to expand their trade with Iran. A Czech agreement would raise 1977 exchanges to \$100 million, 25 percent above the 1976 level. Romania's agreement would result in a tripling of 1975 trade, to \$1 billion a year by 1980. The \$780 million in Iranian credits extended to Bulgaria, Poland, and Romania in 1975 for agricultural development schemes will begin to pay off over the next few years as these countries send the produce of these enterprises to Iran. For example, Bulgaria will deliver \$100 million worth of agricultural products annually in the next five years.

Iraq

During Soviet Premier Kosygin's visit to Baghdad in May, Iraq and the USSR concluded a military agreement and a series of economic accords that will expand Moscow's supplier role.

Record Military Transactions

The \$1 billion military deal, matched only by Moscow's 1974 sale to Libya, places Iraq first among current recipients of Soviet military hardware, surpassing by a half billion dollars the 1974 Soviet accord. The agreement is to include large numbers of MIG-21 and MIG-23 jet aircraft, surface-to-air missile equipment, radar equipment, T-62 tanks, BTR and BMP armored vehicles, and coastal artillery (probably 130 mm). Baghdad may also receive its first MIG-25 jet aircraft, probably the reconnaissance version.

Meanwhile, Soviet deliveries to Iraq already include MIG-23s, MIG-21s, T-62 medium and PT-76 light tanks, and SCUD missiles.

Economic Relations: New Focus on Power and Water Development

A May agreement reportedly will triple Soviet economic assistance in the next five years, compared with the last five. The agreement, like most recent Soviet economic accords with LDCs, probably calls for separate negotiation of credits for individual projects. Firm commitments in 1976 under the agreement—mostly for power and irrigation projects—are conservatively estimated at \$150 million.

exploration was undertaken. Negotiations for Chinese aid to agriculture and the textile industry were in process at the end of the year.

Cyprus received its first aid from Eastern Europe in June—a \$5 million Czech credit for equipment purchases, repayable in eight years at 2.5 percent interest. In July, Nicosia signed a 10-year economic cooperation pact with Bulgaria, which may provide financing for imports of Bulgarian equipment and machinery.

A November Soviet agreement with *Greece* settled a two-year dispute over Greek cancellation of the \$89 million contract for the Philippi power project. Under the new agreement, Athens will purchase \$69 million worth of Soviet equipment for two power plants, with some of the equipment taken from deliveries already made for the Philippi project. Greece also contracted to buy 500,000 tons of Soviet crude oil for \$42 million. Part of the payment will be in agricultural goods.

Consistent with a policy of accepting aid from all sources for its new development plan (1976-80), *Jordan* was studying Soviet assistance for technical schools, petroleum exploration, and rural electrification. Previously Romania had been Jordan's only Communist contractor, having expanded the Zarqa refinery at Amman and built a pipeline to the refinery, presumably under commercial contracts. Agreements were signed in 1976 for an additional \$180 million expansion of the refinery's capacity to 60,000 b/d, reportedly enough to satisfy Jordan's domestic requirements through 1985. Financing was not announced. Jordan also concluded its first economic cooperation agreements with Hungary and was considering one with Czechoslovakia. Prague completed hydrological prospecting for a dam on the Zarqa river, probably as a commercial deal. A Soviet air defense system, offered as an alternative to a more costly US system, was turned down in favor of the US package, which Saudi Arabia agreed to finance.

Kuwait's reported purchase of Soviet artillery and SA-7 surface-to-air missiles was not confirmed during the year, but an agreement in principle for the purchase of missiles was signed early in 1977. At the end of 1976, Kuwait had not yet finalized an agreement on a jointly owned \$1 billion petrochemical complex in Romania stipulated under a 1975 agreement.

Nepal is expected to receive additional economic aid from the USSR under an agreement signed in November after feasibility studies on paper, pharmaceutical, and glucose plants are completed. China agreed in 1976 to proceed with a \$4 million irrigation project at Pokhara and the 65-km Naranghar-Gurkha road, both financed under a \$35 million grant.

China provided \$27 million worth of new aid to *North Yemen* for industrial plants and continuation of a road construction program.

South Yemen received \$24 million in new Soviet economic assistance for transportation, fisheries, and agricultural development.

Sri Lanka accepted a Chinese loan of \$3 million for budget support and concluded its traditional concessionary rice-rubber barter agreement with China during 1976. Peking also began work on the Gin Ganga flood control project and on a textile mill at Mineriya. These projects will bring about 200 Chinese technicians into Sri Lanka.

The Soviets, whose aid program has been smaller, began work on the Samanalawewa hydropower project (under a \$57 million 1975 credit) and expanded a Soviet-built steel mill. East European activity during the year included a Romanian agreement for joint ventures in industry, agriculture, and transportation; an East German agreement to furnish rice and textile mills (probably under a \$42 million credit); a Czech contract for equipment and technical assistance to a refractory works; and transmittal of plans for a small alumina plant to be built with a \$10 million Hungarian credit extended in 1972.

Soviet specialists are also preparing a comprehensive land and water use program as a guide for development over the next 25 years. The program will include \$1 billion in contracts signed in December for four major irrigation and power projects—the Haditha and Habbaniyah dams on the Euphrates River and two canals linking irrigation areas in western and northern Iraq. Additional projects under negotiation include the \$1 billion Hindia and Fallujah dams.

Ongoing Activity Accelerates

During 1976 the USSR completed the 42-km Tharthar irrigation canal and the Baghdad-Basrah petroleum products pipeline (although the pipeline was not yet in operation at yearend).

About 2,900 Soviet technicians were present in Iraq during the year. Priority was given to raising output at the Soviet-developed Rumaila oilfield to the 800,000 b/d rate originally scheduled for the end of 1975. Water injection equipment ordered in August under the new economic agreement is intended to raise output substantially by 1978. Work continued at other fields as part of Moscow's 20-year oil development plan for Iraq.

The first meeting of the Iraq-CEMA Joint Commission, established in 1975, ended in November with the establishment of working groups to recommend suitable projects for multilateral cooperation. Areas under study include petroleum, agriculture, and light industry. While some observers feel that the CEMA connection will only provide integrated planning for Iraqi projects, in fact the administrative framework to disburse multilateral aid funds has been created through Baghdad's association with CEMA.

Eastern Europe: New Contracts for the Five-Year Plan

Baghdad's apparent willingness to barter oil for industrial equipment and services makes Iraqi projects particularly attractive to East European countries faced with rising oil import bills. Romania signed a new economic agreement in May that identified petroleum development, land reclamation, agriculture, and inland fisheries as priorities.

Czechoslovakia will continue to expand the Basrah refinery, which was completed in 1974

with Czech credits. East Germany will participate in construction of a railroad between Baghdad and the Syrian border, while Bulgaria will complete food processing and livestock projects in 1977. Hungary has expanded oil exploration under a 1969 credit and agreed to construct several housing projects.

Financing arrangements for new projects have not been announced; it is likely, however, that most East Europe countries are allowing faster drawdowns of their outstanding credits.

Pakistan

Pakistan continued to depend on China for military goods while the USSR remained the ranking Communist economic aid donor. Despite its heavy support of Pakistan's military establishment, China has been cautious in providing additional assistance for Islamabad's development program. Nevertheless, Pakistan has accepted \$650 million worth of aid from the Soviets. This includes a \$425 million commitment to the Karachi steel mill—Pakistan's largest industrial undertaking. Construction on the 1.1-million-ton plant was begun in 1974, and completion is scheduled for 1980. Pushing ahead with its other aid ventures in Pakistan in 1976, the USSR completed equipment deliveries to the 330-MW Guddu power plant and continued work on associated power lines. Despite reports that Pakistan would terminate Soviet oil exploration contracts, Soviet geologists arrived in December to extend prospecting into new areas. According to Pakistani officials, two new Soviet-developed wells are now producing 2,000 barrels per day.

Romania—the only important East European contributor to Pakistan's development—concluded a new economic agreement in October possibly to cover an additional expansion of the state-owned Karachi petroleum refinery already being expanded under a \$56 million Romanian credit agreement. East Germany extended a \$10 million equipment credit in 1976.

Syria

Despite Moscow's displeasure with Syrian military operations in Lebanon, a new economic agreement was signed, and military deliveries continued although they apparently were cut back from planned levels. Deliveries included MIG-21 and MIG-23 jet fighters.

Economic Relations in High Gear

As an expression of Moscow's continuing interest in Syria, Kosygin promised new petroleum development assistance during his June visit to Damascus.

Soviet economic activity continued at previous levels. Work on land reclamation was begun in 1976 at Meskene, and additional power generators were installed at the Euphrates power station, increasing the plant's capacity to 500 MW. The Soviets continued to string power lines from the dam, and extensive work on rail lines continued as part of a major Soviet effort to reconstruct the Syrian rail system.

The centerpiece of the Soviet program has been the \$2 billion Euphrates dam complex, for which Moscow has provided \$185 million in credits. With completion of the first stage in 1977, 800 MW of electric power can be generated, and the dam will eventually add 1 million hectares of irrigated land. Other facilities associated with the project include experimental farms, research stations, and a new city at Tabqa.

The USSR together with East European countries has also been responsible for developing Syria's national oil industry. Syria is now a net exporter of oil, with 1977 export revenues estimated at about \$500 million. Soviet exploratory work has yielded new reserves of almost 9 billion barrels of oil according to Soviet news reports. The refinery at Homs, built with Czech credits and now being expanded, satisfies most domestic demand for petroleum products.

Turkey

At the end of the year, Turkey was discussing Communist participation in \$2.2 billion worth of industrial projects under a series of broad economic agreements that assure Communist countries a growing role in Ankara's development plans.

The USSR: Seeking a Major Contractor Role

The USSR and Turkey signed a protocol in December that spelled out projects to be supported by Moscow under the 1975 agreement, which had propelled Turkey into fourth place among Soviet aid recipients. The new protocol, signed during the first annual meeting of the Soviet-

Turkish Joint Economic Commission, gave the go-ahead for studies on projects with a reported total cost of \$1.2 billion, for which Moscow had agreed in principle to furnish at least \$600 million to \$700 million. Under the protocol, initial engineering contracts are to be drawn up for expanding the capacity of the Iskenderun steel complex to 4 million tons annually from its present 1 million tons and for increasing aluminum capacity at the Seydisehir complex. Moscow will also construct two power plants (with a total capacity of 800 MW) and two heavy electrical equipment plants.

Dramatic Upswing in Relations with Eastern Europe

Ankara expanded relations with Eastern Europe through wide-ranging economic agreements with Czechoslovakia, Hungary, and Romania. Previously, East European activity had been confined to light industrial projects and a power plant for which commercial-type credits had been allocated.

In 1976, Romania extended \$200 million in 10-year, 5-percent credits for the \$500 million, 100,000 b/d petroleum refinery to be built north of Ankara. Additional Romanian credits also are expected for petroleum drilling and production equipment. We do not have details of the Czech and Hungarian agreements that may also have provided credits, nor for the 1976 Czech contract for a 330-MW power plant near Izmir. Ankara reportedly asked Prague to study industrial projects with a total cost of about \$900 million. These included a \$650 million electromechanical complex, steelworks equipment, and power plants. The Hungarian agreement is more general, calling for cooperation in metallurgy, power, food, and textiles.

Other Middle Eastern and South Asian Countries

Bangladesh turned to China for military and economic assistance for the first time in 1976 as ties with the USSR deteriorated. China also agreed to consider support for the Bangladesh Air Force. Despite strained relations, the Soviets fulfilled commitments to ongoing economic projects, including the 100-MW Ghorosal power plant that was completed during the year. Progress was also made on the electrical equipment plant at Chittagong, and oil and gas

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THE NEW YORK TIMES, SUNDAY, OCTOBER 2, 1977

C.I.A. Says Soviet Steps Up Arms Aid to Third World

By DREW MIDDLETON

Soviet deliveries of military supplies to the third world in 1976 were the largest since Moscow replenished the armories of its Arab clients after the Middle East war of 1973, according to a study issued by the Central Intelligence Agency.

Moscow concluded new agreements for about \$2.34 billion and delivered \$2.25 billion in arms last year, far outstripping economic aid, which the C.I.A. put at \$900 million.

Significant changes appear in the pattern of military aid, Iraq, Libya and Algeria, all Arab states, received military support—in Iraq's case unprecedented, the

study said. Also, the Russians, seeking "to establish a strong presence in Africa," increased their military investment in black Africa.

In addition to military assistance in Angola and Mozambique, arms and technical assistance, including Cuban technicians, went to so-called national liberation movements in southern Africa and military aid continued to Uganda and Somalia.

The Soviet Union also made a breakthrough in South America, where Peru concluded agreements valued at \$250 million, including the sale of 36 Sukhoi-22 supersonic fighter-bombers. Before 1976

the Peruvians had confined their purchases to advanced ground weapons and helicopters.

China, according to the agency, concluded military-aid agreements valued at \$100 million, but Eastern Europe's military contracts with third-world countries fell to \$75 million, the lowest since 1970.

The agency estimated that there were 21,700 Communist technicians, 90 percent of them from the Soviet Union and Eastern Europe, in third-world countries.

The C.I.A. considers the cooling of Soviet-Syrian relations "the most significant development in Moscow's military diplomacy." Arms aid to Syria dwindled

to a trickle last year as an expression of the Russians' displeasure over Syrian intervention in the Lebanese civil war. In May American officials in Damascus reported that Soviet arms shipments had been resumed, although no new weapons were being delivered.

With no Soviet arms sent to Egypt, which has been at odds with its former mentor, Iraq has become the primary recipient of Soviet military aid in the Middle East as a result of a \$1 billion agreement. Aircraft to modernize the air force, including MIG-23's and later models of the MIG-21, has increased the effectiveness of Iraq's ground and air forces, other United States Government analysts reported, and added substance to Israel's fear of an eastern front in the Middle East.

Libya received a large quantity of

weapons under a \$1 billion arms agreement signed in 1974. About 1,100 Libyans are training in the Soviet Union, but Libya relies heavily on foreign technicians, estimated at 800 Russians and Eastern Europeans. Last year Libya received MIG-23 fighters, TU-22 bombers, tanks, surface-to-surface missiles and surface-to-air missile systems.

Libya has received more than its military can absorb, but substantial amounts remain to be delivered under the 1974 agreement, the study said, adding: "The undermanned, poorly trained Libyan military remains ineffective as a combat force and is unable to maintain its modern weaponry." The agency concludes that Libya is stockpiling arms "possibly for use by other states as well as for its own defense."

Moscow's political commitments in black Africa have been implemented by technical personnel sent to Angola and Mozambique. Cuban troops moved into southern Africa to train guerrillas and militia.

In North Africa, the C.I.A. reports, Soviet arms shipments to Algeria, including MIG-21 fighters, "stirred fears of a possible Algerian attack on Moroccan and Mauritanian troops in Western Sahara."

Overall, the agency estimated that the number of Soviet and Eastern European technicians and advisers in third-world states rose by 10 percent in 1976 while the Chinese presence declined by more than 30 percent. Relations between China and such African nations as Guinea have deteriorated as a result of African support for the Soviet role in Angola.

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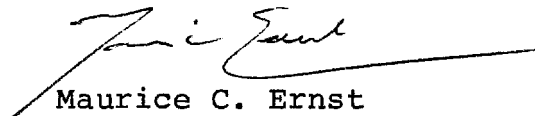
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28 October 1977

Because of your interest in the Soviet economy, I am sending you our latest publications, Communist Aid to the Less Developed Countries of the Free World, 1976, and Soviet Commercial Operations in the West.

We would appreciate any comments or suggestions you might have about the content or format.


Maurice C. Ernst
Director
Economic Research

Enclosures: (2)