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Soviet and East European Aid to the Third World, 1981

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A Research Paper

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*GI 82-10175
August 1982*

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Soviet and East European Aid to the Third World, 1981

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A Research Paper

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This paper has been prepared by [redacted] and Staff, International Security Issues Division, Office of Global Issues. Comments and queries are welcome and may be addressed to the Chief, Communist Activities Branch, [redacted]

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This paper has been coordinated with the Department of State, the Defense Intelligence Agency, the Defense Intelligence Agency, and the Agency for International Development. [redacted]

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**Soviet and East European
Aid to the
Third World, 1981**

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Summary

*Information available
as of 1 July 1982
was used in this report.*

Warsaw Pact countries signed \$8 billion worth of military agreements with Third World countries in 1981, down sharply from the record \$15 billion in orders in 1980. Soviet and East European economic aid pledges to Third World countries also declined dramatically in 1981 to a little more than \$1 billion.

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The decline in military agreements was entirely attributable to a drop from \$14 billion to \$6 billion in Soviet military sales, as major clients absorbed heavy equipment deliveries under previous contracts. Traditional clients in Africa, the Middle East, and South Asia accounted for 95 percent of new Soviet orders, with record Ethiopian and Syrian purchases heading the list. Moscow added Jordan and Nicaragua to its list of military customers in 1981. Hard currency earnings from arms sales reached an estimated \$5 billion, an important consideration in view of the USSR's deteriorating financial position.

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East European military sales of \$2 billion nearly tripled the 1980 sales record. Iraq's \$1.1 billion of purchases for use in the war with Iran accounted for much of the increase, as East European suppliers—with Soviet endorsement—moved into the gap left by the USSR's refusal to sign new arms accords with either belligerent. Libya also placed \$650 million of orders. Romania, the largest seller, accounted for 40 percent of the East European sales.

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Soviet economic assistance dropped to a four-year low of \$450 million as several major negotiations dragged on without final agreement. This drop does not reflect reduced Soviet interest in its foreign economic program: commitments in first-half 1982 already exceed \$2 billion. Most of the 1981 Soviet economic credits went to small clients, were trade associated, and carried harder repayment terms. East European economic assistance also dropped dramatically, to \$665 million, more than one-half from East Germany.

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While the Falkland Islands dispute and the Israeli action in Lebanon will undoubtedly cause some Third World countries to rethink their military supply relationships with Warsaw Pact members, particularly the USSR, we do not believe that most major recipients of Pact military aid will be able to shift to Western suppliers because of political or economic constraints. On the economic side, we expect the USSR to continue


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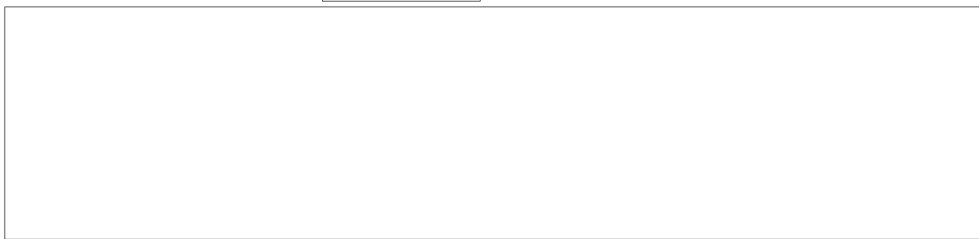
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focusing its aid on countries (such as the Arab states) that will provide economic as well as strategic benefits; East European countries will undoubtedly give high priority to assuring strategic minerals supplies for their beleaguered economies. 


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The data on economic and military agreements reflect the latest information available and supersede data in our previous publications. Values of military agreements and deliveries are based on Soviet trade prices that are usually quoted in rubles and then converted by us into US dollars at current rates. 


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The term *Communist countries* refers to the USSR and the following countries of Eastern Europe: Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Included in this edition also are data on Cuban, North Korean, and Yugoslav aid to and personnel present in LDCs. 

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The term *less developed countries* includes all countries of Africa except the Republic of South Africa; all countries of East Asia except Hong Kong and Japan; Malta, Portugal, and Spain in Europe; all countries in Latin America except Cuba; and all countries in the Middle East and South Asia except Israel. Cambodia, Laos, and Vietnam, which became Communist countries in 1975, are reported on for prior years for historical reasons. 

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Within the aid context, the terms *extensions*, *commitments*, and *agreements* refer to pledges to provide goods and services, either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. For economic aid, credits with repayment terms of five years or more are included. Where terms are known, the credits are designated as "trade credits" if amortization is less than 10 years. For military transactions, all sales are included—whether for cash or provided under credits or grants. The terms *drawings* and *disbursements* refer to the delivery of goods or the use of services. 

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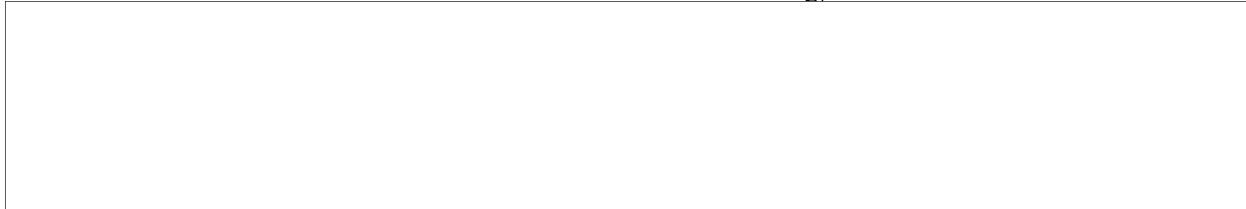
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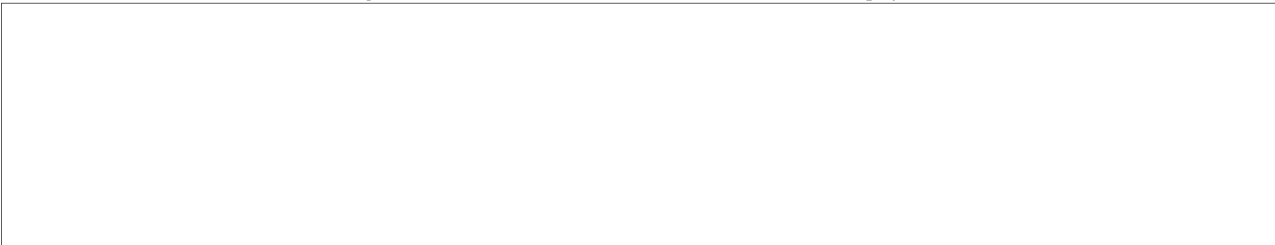
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**Soviet and East European
Aid to the
Third World, 1981**

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Perspective

Warsaw Pact agreements in 1981 continue a post-World War II pattern of aggressively building Communist political, military, and economic influence in the Third World. The Communist programs emphasize military rather than economic aid and focus on a few key countries. Throughout the last three decades, Moscow's basic objectives have remained unchanged: (a) to erode Western influence and substitute its own, (b) to persuade Third World countries that the Soviet economic model offers a solution to their economic problems, (c) to establish military and political bases from which to project Soviet power, and (d) to gain access to strategic raw materials. East European countries have pursued similar aims in LDCs, and their economic and military programs have complemented those of the USSR.

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The Soviet Military Program

Moscow's \$6 billion of new military agreements in 1981 brought the value of its Third World military agreements to \$70 billion over the past 27 years. Soviet arms sales have been heavily concentrated on a small number of countries—primarily those that are strategically situated and/or have friendly governments. The largest share (95 percent since 1954) has gone to nations on the Soviet border and to radical North African and Middle Eastern states such as Algeria, Libya, and Syria. A number of them—notably Afghanistan, Algeria, Iraq, Libya, and Syria—have equipped their military forces largely with Soviet arms and remain dependent upon Moscow for parts, supplies, and servicing.

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The Kremlin has found the military program of primary importance in establishing influence because it: (a) can create dependence more quickly than economic aid, (b) provides direct access to LDC power structures (the military in most countries), (c) can be more readily implemented on a full scale than economic agreements, and (d) is financially much more advantageous to the USSR.

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The economic returns to the USSR of both its economic and military programs emerged as an increasingly important element during the 1970s. Always a driving force behind Soviet civilian machinery and equipment exports to the Third World, the Soviet economic aid program has begun to pay off in imports of strategic raw materials such as oil and nonferrous metals from Soviet-built projects. Military sales generate an estimated \$5 billion in hard currency annually, an increasingly important factor as the Soviet economy continues to falter.

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The rising oil revenues of Moscow's major Arab clients after the 1973 Middle East war opened new possibilities for the Soviet military program. In addition to using arms transfers as a means of expanding influence, the Soviets saw they could use sales to substantially increase hard currency earnings. This they accomplished by raising prices on most weapons, requiring more cash payments in hard currency, demanding advance payments for selected items, and tightening terms where they did provide credit. Even though these measures were aimed primarily at wealthy OPEC clients, Moscow also applied them to poorer customers, such as Mozambique and Zambia.

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Demand for Soviet arms continues high despite the more hardnosed, sales-oriented program and the preference of a number of clients to diversify military suppliers to reduce their dependence on Moscow. The list of buyers has continued to expand not only because of newfound wealth in the case of oil producers but also because: (a) Soviet terms still are more lenient than those of many Western suppliers, (b) fast delivery, (c) practically free technical services, and (d) access to advanced equipment except for some of the latest aircraft and missile systems and high-technology communications and electronics gear. These latter items are too advanced for LDC use without Soviet operational personnel and could be

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compromised if lost in action. Moscow sometimes provides other concessions to favored clients. [redacted]

orchestrates East European technical service programs, although these countries send military specialists abroad to advance their own foreign policy aims as well. [redacted]

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The Economic Program

Because of the importance that many leaders of emerging states attach to the acquisition of modern weapons, the Soviets have been able to deepen and prolong the dependence of these countries. In some instances (such as Egypt and Syria), dependence was heightened because some of the sophisticated weapons provided them were kept under Soviet control. The export of increasingly advanced arms has also generated a more extensive Soviet military technical presence abroad as well as an expanded training program in the USSR. By 1981 about 16,000 Soviet military personnel were stationed in some 30 LDCs to assemble and service weapons and to train local personnel on their advanced military equipment, and nearly 50,000 LDC personnel had been trained in the USSR. At the same time, we know from LDC officials that Moscow perpetuates dependence on Soviet personnel by deliberately limiting the development of LDC capabilities. Soviet advisers in Syria, for example, are posted as far down as the company level, a policy that has curtailed development of the skills of middle-grade officers. [redacted]

Moscow still considers economic aid a useful tool for expanding Soviet influence in the Third World despite the loss of much of the early political dynamism of its program, which now focuses largely on economic rather than political criteria in determining what countries will receive aid. Because of its early emphasis on large, showy projects in the industrial sector—projects that often had been turned down by Western donors because of questionable economic returns to the client—the USSR's aid has often gained a reputation not warranted by its size. Indeed, the USSR accounts for less than 3 percent of international aid flows to non-Communist LDCs. Still, the USSR gained entree into Egypt, India, Iran, Syria, and a number of other countries through its economic program, and these ties endure even when other relationships wither. [redacted]

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More recently, Moscow has pressed for broad, long-term cooperation agreements with all of its major LDC clients to synchronize their planning cycles with Moscow's. These open-ended, nonbinding agreements are designed to provide a firmer economic base for long-term planning by client countries, while increasing the USSR's assurance of a stable flow of raw materials. Among the billion dollars in goods that the USSR reports it receives annually as repayments for Soviet-built projects are crude oil from Iran and Syria, natural gas from Afghanistan, bauxite from Guinea, alumina from Turkey, and steel products from a number of LDCs. [redacted]

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Eastern Europe's Military Program

Over the past three decades, East European countries have signed \$7.6 billion in military agreements for equipment and services, mostly with Moscow's major clients. East European sales complement the USSR's sophisticated weapons packages; in some cases, East European countries provide technical services to support the Soviet military presence. We believe that the USSR strongly influences its allies' selection of clients and timing of commitments. Like the USSR, Eastern Europe is using its military program to build up foreign exchange earnings and to provide access to critical oil and other resource supplies. Moscow also

Over the past 28 years, East European countries have pledged nearly \$12 billion of aid to 64 countries, of which \$4.3 billion has been disbursed. East European countries have placed even more emphasis than the USSR on benefits to be gained from the program, and political goals have been a distant second to business aims. East European credits, extended to stimulate trade with LDCs by promoting equipment exports,

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have always carried harder terms than Soviet assistance (five to eight years to repay at market interest rates), although a few development credits have allowed 10 to 12 year repayments. The commercially oriented East European program, which usually provides financing for equipment purchases rather than large, high-visibility projects, has not had much political impact in LDCs. [redacted]

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In the early years, the selection of East European aid recipients appears to have been heavily influenced by the USSR. Soviet aid pledges to target countries such as Egypt, Syria, Iran, and Iraq, were followed within a few months by East European commitments. Until 1970 major Soviet recipients also accounted for two-thirds of East European aid. Since then, East European countries have distributed their trade credits more widely, and the old clients account for less than one-half of total East European aid to LDCs. In the early 1970s East European programs also began returning strategic materials to their donors, particularly through repayments in oil from Arab producers and Iran. Ties with major oil producers, fostered by aid programs, are proving instrumental in Eastern Europe's search for suppliers to supplement Soviet oil deliveries, and East European countries are looking forward to similar paybacks in coal, phosphates, nonferrous metals, and other materials. [redacted]

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Like Soviet commitments, the trend for East European aid pledges has been distinctly upward, although they have fluctuated widely (from \$500 million to \$1.5 billion a year in the past decade) in response to opportunities in LDCs. Over the past five years, average East European commitments have risen by about 25 percent to \$935 million annually compared with the previous five-year period. [redacted]

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The Military Assistance Program in 1981

Soviet Arms Sales Slip

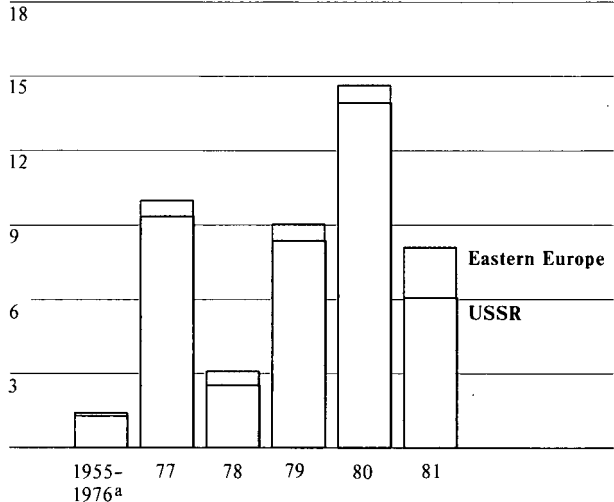
Moscow continued to vie with the United States for first place as the major supplier of weapons systems to the Third World in 1981,¹ despite a sharp drop in contracts to \$6 billion from the record \$14 billion in 1980 (table 1). Moscow's military sales program

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¹ Includes aircraft, ground armaments, missiles, and naval craft. [redacted]

Figure 1
USSR and Eastern Europe:
Military Agreements Concluded
With Less Developed Countries

Billion US \$



^a Average Annual.

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scored important gains in the Middle East, the Caribbean, and in key black African states. The Kremlin added Jordan and Nicaragua to its list of arms clients and received record reorders from Syria and Ethiopia. We had anticipated the falloff in new agreements last year from the record-shattering 1980 sales of \$14 billion since:

- Some major buyers stayed out of the market to absorb large delivery backlogs from record orders placed in 1979-80.
- Moscow announced that it would not sign large new weapons contracts with Iraq because of the war with Iran. [redacted]

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Steady Customers Still Dominate New Orders. Military sales to traditional Soviet clients in Africa, the Middle East, and South Asia accounted for 95 percent of 1981 sales. Together these added more than \$5.7 billion to Soviet order books in 1981; record Syrian and Ethiopian contracts for upgraded hardware and associated support headed the list. The \$3

Table 1 *Million US \$*
USSR: Military Agreements With LDCs

1977	9,335
1978	2,520
1979	8,360
1980	13,915
1981	6,060

billion Syrian package, an outgrowth of the Syrian-USSR friendship treaty signed in October 1980, consisted largely of air defense equipment, aircraft, and T-72 tanks. The Soviets also gained an increased military presence, demonstrated by the combined Syrian-Soviet naval exercises off the Syrian coast at midyear. [redacted]

The new Ethiopian-Soviet arms agreement had been under negotiation for some time. Little is known about the new accord—that we estimate to be worth \$1.7 billion—but we believe that it provides Ethiopia's naval and ground forces with more and better weapons, possibly including newer air defense systems, larger naval craft, some FROG or SCUD battlefield missiles, and upgraded military facilities. [redacted]

A \$300 million addition to India's \$2 billion plus 1980 arms package for transport aircraft and a \$155 million package to Angola rounded out Soviet commitments to traditional clients. [redacted]

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Sales to New Clients Run Counter to US Interests. Moscow made inroads into new markets in 1981 with its first arms agreements with Jordan and Nicaragua. Russian officials undoubtedly consider their \$225 million sale of air defense equipment to Jordan a major breakthrough among conservative Arab customers. Moscow probably hopes that the deal, under intermittent negotiation for five years, will loosen Amman's ties with the United States and other major Western arms suppliers and further isolate Israel. [redacted]

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Nicaragua's first arms agreements with the USSR calls for more than \$100 million worth of transport aircraft, APCs, artillery, and trucks. We believe that the agreement will involve Moscow's first direct deliveries to Managua, although the Soviets have transferred military equipment through Cuba and some leftist Arab states such as Algeria since at least early 1980. Ongoing military construction activities in Nicaragua and pilot training in Communist countries for Nicaraguan personnel suggest that the USSR may also provide Managua with the Caribbean's first high-performance jet fighters. [redacted]

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Arms Deliveries Second Highest on Record. In contrast to sales, Soviet equipment deliveries rose slightly in 1981 to \$6.4 billion, pushed by transfers under multibillion-dollar contracts signed with major clients in 1979/80 (table 2). Algeria, Libya, Iraq, and Syria were in the billion-dollar category, accounting for three-fourths of Soviet arms transfers in 1981 (table 3). Since the mid-1970s, the growing arms buildup in the Middle East financed by oil money has meant that Arab countries have overwhelmingly dominated the Soviet arms supply program. India also received \$635 million in Soviet weaponry in 1981. [redacted]

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Table 2 *Million US \$*
USSR and Eastern Europe:
Military Deliveries to LDCs

	USSR	Eastern Europe
1977	4,740	355
1978	5,705	550
1979	7,615	635
1980	6,290	525
1981	6,445	775

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Table 3 *Million US \$*
USSR: Military Deliveries
to Major Clients, 1981

	Total
	6,445
Algeria	1,060
Libya	1,045
Iraq	965
Syria	1,720
Other	1,655

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several countries received major new Soviet weapons systems for the first time, including:

- MIG-25 jet fighters to India and Iraq.
- AN-2 transport aircraft, MI-8 helicopters, and an array of ground force weaponry to Nicaragua.
- Antisubmarine warfare MI-14 helicopters to Libya.
- Natya minesweepers and Nanuchka guided-missile combatants to Libya.
- A Zhuk patrol boat to Algeria.
- SCUD missiles to South Yemen.

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Hard Currency Revenues Increase in Importance.

Hard currency earnings from arms transfers played a more important role in 1981 as Moscow's financial position continued to deteriorate. In 1981 we estimate that the USSR earned \$5 billion in hard currency on new transactions and as payments on earlier sales. Cash sales for spare parts, not included in delivery figures, could add another \$1 billion annually to Soviet hard currency income. In 1981 military exports also balanced the Soviet-LDC trade account despite the USSR's \$4 billion deficit with Latin America.² The residual shown in figure 2 represents Soviet military exports.

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East European Arms Sales Hit Record Levels

East European Warsaw Pact members closed \$2 billion worth of military contracts with Third World countries in 1981, nearly tripling their 1980 sales record (table 4). Much of the increase was caused by

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the Soviet decision to withhold arms to the belligerents in the Iran-Iraq war and by ongoing modernization by major clients such as Libya. Middle Eastern states booked two-thirds of the East European orders in 1981. Yugoslavia, pursuing its own aims outside the Pact, signed \$865 million in new agreements, mostly with Baghdad.

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Romania and Poland led the thrust into the Arab arms market by resupplying Iraq (we believe with Soviet endorsement), whose military forces were weakened by a six-month Soviet weapons embargo that ended in April. Bucharest's \$700 million in contracts for ordnance and support equipment were three times higher than Warsaw's contracts, but the Polish deals (\$210 million) for T-55 tanks, air defense guns, and MI-2 helicopters were far more important for replacing mainline items in short supply. Yugoslavia agreed to \$800 million in military construction projects to supplement earlier contracts to develop Iraq's domestic arms industry.

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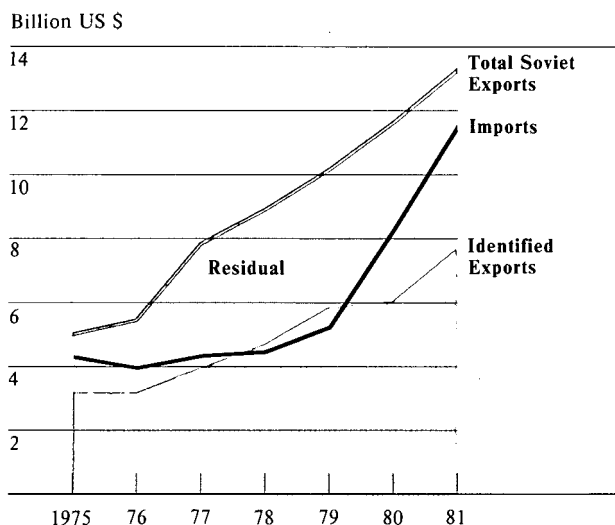
Libya kept its arms procurement high at \$650 million in agreements with five of the six members of the East European group:

- Hungary provided \$300 million in contracts for a mobile alarm and telecommunications network and associated training and construction.
- Bulgaria provided \$100 million of unspecified material.
- Czechoslovakia, also a \$100 million seller, agreed to an overhaul facility for L-39 aircraft.

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Figure 2
USSR: Trade Relations With the Third World



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• Poland and Romania together agreed to \$145 million in helicopters, military training, ammunition, and quartermaster equipment. East European deliveries to the Third World also rose to record heights (\$775 million) because of the Iran-Iraq conflict.

Like the USSR, Eastern Europe is using its military program to build up foreign exchange earnings and weaken Third World military alliances with the West. Their sales are an important adjunct to the Soviet arms program, complementing the USSR's sophisticated weapons packages and furthering Moscow's strategic goals. We believe that the USSR strongly influences the selection of clients and the timing of commitments.

In some cases, East European countries have provided technical services to support the Soviet military presence. For example, East Germany provides intelligence advisers to Angola, Ethiopia, Mozambique, and South Yemen to strengthen the Marxist security apparatus in those countries.

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Table 4 *Million US \$*
Eastern Europe: Arms Sales to LDCs, 1981

Total	2,030
Bulgaria	230
Czechoslovakia	125
East Germany	55
Hungary	345
Poland	450
Romania	825

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On the economic side, military sales, in addition to generating important foreign exchange for Eastern Europe, have provided access to critical oil supplies from Libya, Iran, and Iraq at a time when the international community has become wary of new business with the debt-ridden European Communist nations. Gloomy economic forecasts presage further heavy East European competition for an increasing share of the international arms market, even if it requires diversion of equipment from their own inventories.

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Military Technical Services:
An Expanding Presence

Military programs in the Third World required the services of 57,400 military personnel from the USSR, Eastern Europe, and Cuba in 38 Third World countries during 1981, 8,700 more than in 1980 (table 5). The Cuban presence rose by more than 25 percent in 1981, as Castro sought to enhance his reputation as a Third World leader and to fulfill Havana's and Moscow's strategic interests in Africa and Latin America by:

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- Sending an additional 6,000 troops to Angola in response to South African raids.
- Augmenting the Cuban presence in Mozambique by 800 to suppress insurgents.
- Providing at least 1,500 more military personnel to help the Nicaraguans with training, security, and intelligence.

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Table 5 *Number of persons*
Military Technicians in LDCs, 1981^a

	USSR	Eastern Europe	Cuba
Total	16,280	1,925	39,175^b
North Africa	4,000	600	50
Sub-Saharan Africa	4,535	765	36,910
Latin America	165	60	1,715
Middle East	5,425	500	500
South Asia	2,155	NA	..

^aNumbers are rounded to the nearest five.

^bIncludes combat units in Angola and Ethiopia.

Table 6 *Million US \$*
USSR: Economic Aid Extended to LDCs

	Total
	22,355
1954-76	13,060
1977	430
1978	3,000
1979	3,345
1980	2,070
1981	450

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intelligence and police training. The North Korean presence in LDCs also increased in 1981 to nearly 300, as 150 advisers were sent to Zambia (to help provide presidential security) and Zimbabwe (in conjunction with arms deliveries). 25X1

While the number of Communist military advisers from the USSR and its allies in LDCs has grown in almost every year since the program began, current economic constraints, particularly in the USSR, are threatening to cut the number of Communist military technicians to LDCs. 25X1

Cuban Premier Castro may also face political difficulties at home if he attempts to expand the overseas Cuban military (as opposed to economic) presence, because Cubans are beginning to comment openly on the casualties sustained in Angola and Ethiopia. 25X1

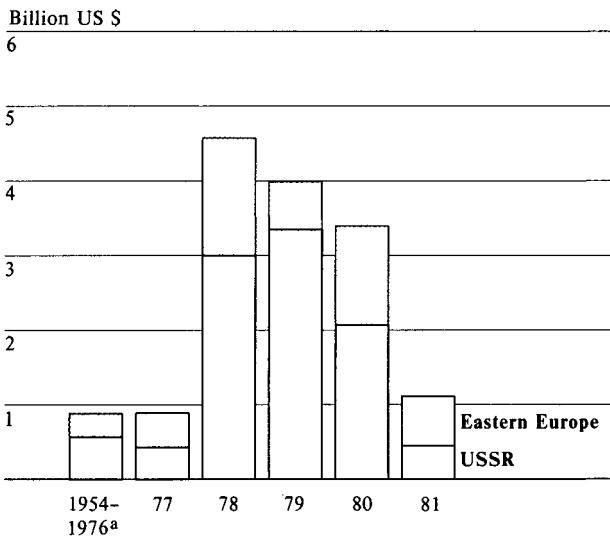
Economic Aid in 1981

USSR: No New Directions

The USSR's economic program fell to its lowest level in the past four years with only \$450 million in new credits to a few small recipients (table 6).³ Following

³ We do not know the value of an agreement to construct a gas pipeline in Algeria that carries 10-year deferred terms. It could add up to \$500 million in credits to the 1981 total. 25X1

**Figure 3
USSR and Eastern Europe: Economic Aid
Extended to Less Developed Countries**



^a Average Annual.

[Redacted]

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recent patterns, the USSR's new credits in 1981 were designed primarily to promote the sale of Soviet equipment and were less concessionary than traditional development aid that allows 12-year payments at 2.5- to 3-percent interest. [Redacted]

The decline in Soviet extensions this year does not reflect reduced Soviet interest in its economic program. Rather, negotiations were under way on several billion dollars in projects at yearend, which, if completed, could have upped the total close to earlier levels. For example, various press sources report that the USSR signed a \$2 billion accord with Angola early in 1982 that calls for large, new credits to development projects. Recent aid has not reached the high levels of 1978-79 when record agreements with Morocco and Turkey pushed annual aid past the \$3 billion mark. [Redacted]

The Soviets are probably aware that any drop in economic aid can only heighten LDC criticism of their aid program. The USSR's credibility in the Third World was seriously damaged by its refusal to

attend the October 1981 conference on North-South relations in Cancun, Mexico. Brezhnev himself emerged as the authority on the question of which countries should be represented in the North-South dialogue; namely, that the developed countries represent the North, and LDCs should refrain from dragging the socialist countries into the fray. According to State Department reporting from the conference, however, the developing countries debated and rejected Moscow's argument that it cannot accept any political or moral responsibility for backwardness in the Third World that has resulted from colonialism. To Moscow's chagrin, the final declaration at Cancun incorporated wording that censured the USSR's absence. [Redacted]

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In 1981 the bulk of Moscow's new aid went to four hitherto small recipients of Soviet economic assistance—Bangladesh, Ecuador, Mozambique, and Nicaragua. The USSR provided a well-publicized grant of 20,000 tons of wheat (to replace US supplies) and \$75 million of other aid to Nicaragua—Moscow's largest economic commitment in 1981—for developing agriculture and communications. The development credits are the first specific allocation of Soviet aid to Managua and come under the broad open-ended framework accord of 1980. Moscow also extended:

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- A \$35 million, 10-year, 6-percent credit to Ecuador—its first development credit to that country—for constructing oil storage tanks. [Redacted]
- A 10-year, \$70 million credit to Bangladesh, under their trade agreement, for two 110-MW generators to expand the Russian-built Ghorosal electric plant. [Redacted]
- A \$45 million credit to Mozambique, added to an earlier \$105 million in assistance to finance coal and agricultural development, oil and gas exploration, and railway construction. [Redacted]

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The USSR signed contracts with India and Turkey, allocating credits under earlier agreements to projects in metals processing. India received permission to use \$350 million of outstanding credits to finance a blast

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furnace complex at Visakhapatnam. Moscow approved \$200 million under a 1975 Soviet-Turkish accord to expand the Soviet-built aluminum complex at Seydisehir, and Soviet officials continued negotiations with Ankara for expanding the Iskenderun steel mill. The USSR will receive payment in output from these plants, an arrangement that is becoming increasingly beneficial to the beleaguered Soviet economy. Moscow's large new allocations to India and Turkey for steel and aluminum development underline the importance the Soviets have long placed on aiding Third World public-sector minerals and metals industries. [redacted]

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Focus on Minerals and Metals Development. Moscow has allocated \$12 billion to minerals and metals development in LDCs, more than half its total economic aid to LDCs since the aid program began in 1954. The aid has been concentrated in steel and aluminum development, with smaller amounts extended for geological surveys and mining. More than two-thirds (\$8 billion) of Moscow's total commitments to Third World nonfuel minerals development has taken place over the past five years. [redacted]

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To support its LDC minerals development program, the USSR's geological surveys—an early feature of aid agreements with LDCs—have spread across the globe. At the end of 1981 the USSR had conducted surveys—sometimes for a single element—in more than 50 developing nations. Along with the search for common industrial metals and minerals (such as iron ore, phosphates, bauxite, lead, and zinc), the Soviets also have explored for strategic materials:

- Cobalt in Algeria and Morocco (but not in Zaire or Zambia, which already supply cobalt to the USSR).
- Gold and platinum in seven African countries and in South Yemen.
- Titanium in South Yemen and Sri Lanka.
- Tungsten in Algeria and Thailand.
- Uranium in Afghanistan, Ethiopia, Iran, Iraq, and Libya.

Only in the case of gold was the exploration for strategic materials followed up (in four African countries) with accords to exploit the deposits and process the output. [redacted]

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To some degree, Moscow's prospecting aid to LDCs is an outgrowth of its expertise in the field. The Soviets

have the largest domestic geological research effort in the world, employing more than half a million people. Sending Russian geologists to the Third World is virtually a cost-free operation since they are paid for by the host country. It establishes a highly visible Soviet presence and plays up an area where the Soviets have established competence. As a spinoff, Soviet geological work presumably provides Moscow with useful intelligence. [redacted]

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Developing Third World Steel Industries: A Prestige Undertaking.

Of Moscow's \$12 billion of assistance for metals and minerals to the Third World, development of steel industries has absorbed \$7.4 billion or one-third of its total aid program and nearly two-thirds of the aid allocated to Third World metals and minerals development. Capitalizing on LDC desires for their own steel plants, Moscow offered credits not available in the West for highly visible, prestigious projects. Little, if any, of the production from these plants is intended to meet domestic Soviet needs. Some of the 1.4 million tons of rolled steel imports from LDCs, mostly from India and Pakistan, called for in its present aid agreements may be sold to third parties. [redacted]

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Nonferrous Metals Agreements: Designed for Payback. In contrast, the Kremlin's \$4.5 billion of assistance for developing other LDC minerals and metals has been designed primarily for yielding a payback in products that are scarce or expensive to develop in the USSR. These agreements have been stepped up in the past several years because of Moscow's concerns about declining domestic output and the high cost of exploiting marginal and distant reserves. [redacted]

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Moscow presently relies on bauxite and alumina imports for about one-half of its annual needs and began importing phosphates this year. The USSR's \$90 million agreement with Guinea to exploit bauxite serves as a model for Soviet buyback arrangements. It has led to a stable 25-year supply of bauxite, which supports 25 percent of Soviet aluminum production. Table 7 shows returns from the USSR's minerals and metals program. [redacted]

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Table 7
USSR: Estimated Resource Payback From
Aid Programs in LDCs, as of December 1981

	Soviet Aid Extended (million US \$)	Annual Payback	
		Material	Thousand Tons ^a
Steel			
Algeria	315	Pig iron	100-200
Egypt	230	Rolled steel	100
India	1,400	Pig iron <i>Steel ingots</i>	300 1,000
Pakistan	650	<i>Iron and steel</i> <i>Rolled products</i>	200 70
Phosphates			
Morocco	2,000	<i>Phosphate rock</i>	10,000
Aluminum			
Algeria	290	<i>Aluminum</i>	NA
Guinea	90	<i>Bauxite</i>	2,500
India	35 165	<i>Alumina</i> <i>Alumina</i>	50 300-500
Turkey	265	<i>Alumina</i>	80
Other			
Afghanistan	5 300	<i>Barite</i> <i>Copper</i>	3.5 NA
Bolivia	105	<i>Tin</i>	2-4
Ethiopia	15	<i>Gold</i>	NA
Iran	35	<i>Lead and zinc</i>	120
Mali	20	<i>Gold</i>	NA

^a Indicates maximum amounts available under agreements. Items in italics indicate amount expected upon completion of plants.

In all, we estimate that nearly \$6 billion of Soviet aid committed to metals and minerals development will be paid off in plant output (as is usual for such assistance) and that long-term supply contracts—such as the 25-year arrangement for Guinean bauxite and the 30-year deal for Moroccan phosphates—will extend these relationships to Moscow's advantage.

Eastern Europe: Promoting Business Interests

East European economic agreements with 12 diverse Third World clients totaled \$665 million in 1981, one-half the previous year's level (table 8). East Germany made more than one-half the pledges. These included agreements with Algeria (\$250 million), Mozambique

Table 8
Eastern Europe: Economic Aid
Extended to LDCs, 1981

Million US \$

Total	665^a
Bulgaria	25
Czechoslovakia	NEGL
East Germany	355
Hungary	30
Romania	250

^a Because of rounding, components may not add to total shown.

(\$75 million), Nicaragua (\$13 million), Zimbabwe (\$14 million), and four other small recipients. East Germany has perhaps the most highly politicized of all the East European programs; aid went mostly to Marxist-oriented LDCs where the Communist political stakes are high. Romania, the other major East European donor, provided \$250 million to Bangladesh, where Bucharest has been cultivating business interests for years. Other East European countries provided small trade credits to promote equipment sales.

While East European countries did not provide new aid to their major Middle Eastern clients, they were able to capitalize on unsettled events to promote commercial relationships (according to East European statements, always the major aim of the aid program) without the use of credits. At least 100,000 b/d of barter oil flowed to Eastern Europe in 1981 from Iran and Iraq (despite their production cutbacks) in return for military and industrial goods, food, and consumer items. Growing hard currency shortages, as the costly war dragged on, assured even more comprehensive barter deals with Baghdad and Tehran that will help alleviate severe hard currency shortages in Eastern Europe. East European countries also received nearly \$800 million in Arab hard currency bank loans in 1981 and were negotiating up to \$1.5 billion in additional funds at yearend.

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Table 9
Economic Aid Deliveries to LDCs

Million US \$

	USSR	Eastern Europe
1977	548	481
1978	482	405
1979	574	289
1980	808	254
1981	716	323

Table 10
Economic Technicians in LDCs, 1981^a

Number of persons

	USSR	Eastern Europe	Cuba	North Korea
Total	34,970	60,715	23,075	1,545
North Africa	8,065	37,805	5,250	1,050
Sub-Saharan Africa	7,705	7,025	9,435	430
East Asia	20	40	..	50
Europe	..	150
Latin America	350	580	4,640	..
Middle East	12,780	14,370	3,650	15
South Asia	6,050	745	100	..

^a Numbers are rounded to the nearest five.

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Disbursements Still High

Soviet deliveries of project and commodity aid under earlier agreements sustained their momentum in 1981, although they dipped from the record level achieved in 1980, when \$300 million of grant consumer goods and food to Afghanistan raised total aid disbursements to \$810 million (table 9). Support to Afghanistan (\$200 million) and Ethiopia (\$80 million) in oil subsidies and commodities kept disbursements in 1981 well above levels in previous years. The USSR did not begin any major new projects in LDCs in 1981 but stepped up deliveries to projects in Iraq and Iran (after a cutback in 1980 because of the war).

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Because of its support to such Marxist-oriented clients as Afghanistan and Ethiopia, the USSR again is experiencing a net outflow of aid to LDCs. Since the early 1970s, repayments by major clients (on debts estimated at \$5 billion) have been more than enough to cover annual economic aid deliveries. We estimate that the Afghan relationship is causing an economic aid drain of at least \$200 million annually for the Soviets.

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East European disbursements recovered somewhat from the five-year low of 1980 but still did not reach levels set in the mid-1970s, because:

- Economic deterioration in Poland forced Warsaw to renege on some project commitments.
- Romania has completed \$350 million worth of projects in Syria that kept delivery levels high for several years.

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- Programs in Iran and Iraq were curtailed because of the war.

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Technical Services: A Source of Ready Cash

The Soviet Bloc technical presence in the Third World rose to a record high of 120,000 personnel in 1981, a 15-percent jump from the previous year. For the USSR and Eastern Europe, the technical services program is one of their most profitable undertakings in LDCs. From a small effort employing only a few hundred people in the 1960s, it has evolved into a high-visibility program involving 96,000 Soviet and East European technicians in 75 countries in 1981 (table 10). About two-thirds of these personnel were working in Arab and other countries that pay hard currency for services; another 3,750 were in Afghanistan, where the Soviets have placed advisers in most ministries and have attempted to step up project construction in spite of the insurgency there. Four of the Marxist-oriented countries—Angola, Ethiopia, Mozambique, and South Yemen—employed more than 10,000 European Communist personnel in 1981.

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The USSR cleared at least \$200 million in hard currency (or its equivalent) from its Third World technical services program in 1981. Eastern Europe

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received even more—at least \$500 million. Except for a few doctors and teachers provided on a grant basis (mostly in Africa), European Communist countries command hard currency payments for their technicians. Moscow requires at least half of technicians' salaries in hard currency, even from such impoverished clients as Guinea and Mali. [redacted]

Soviet and East European technicians are less expensive than Western personnel, but by LDC standards they still command fairly high annual salaries. Emigres from the USSR and Eastern Europe report that the Soviets charge up to \$55,000 a year for project managers and \$40,000 to \$45,000 for less senior personnel, while salaries for skilled East European personnel may range up to \$80,000 annually. These salaries are far higher than those paid to personnel at home because Communist enterprises, reluctant to part with skilled workers in labor-short economies, demand top prices to release a worker for service abroad. [redacted]

Cuba: Economic Program Turns on Technical Services

Havana has followed the Soviet lead in expanding its technical presence in the Third World as a quick and profitable way to increase its influence abroad. Cuba increased its technical contingent in LDCs by 2,900 personnel in 1981, substantially increasing its presence in Iraq, Libya, Mozambique, and Nicaragua. Cuban economic technicians were in 26 LDCs in 1981, as Havana successfully marketed its cutrate technical services. In Nicaragua, the Cubans beefed up their work force of teachers, doctors, and construction workers (provided free of charge) to further their influence in Managua. About one-fourth of Cuba's technicians abroad were in Arab countries, with which Havana has hard currency contracts. Cuba was able to place an additional 3,500 personnel, mostly construction workers, in Iraq and Libya, where returns from the program are particularly high. These two countries pay up to \$20,000 a year in hard currency for the services of a Cuban worker under a series of development contracts signed in the past few years. Havana is attempting to divert personnel from its less profitable African ventures, [redacted]

[redacted]

[redacted] Cuba expected to make at least \$200 million in 1981 on its Third World technical services program—about 10 percent of total hard currency earnings. [redacted]

Since Cuba does not export much equipment suitable for LDC development programs, Havana's economic program has consisted largely of technical services, sometimes to support Soviet and East European projects. Services to LDC construction industries have been particularly well received, and about two-thirds of all nonmilitary Cubans abroad are working on construction projects. Hard currency earnings from construction contracts in 1981 more than offset any negative impact that the export of skilled labor might have had on Cuba's own economy. Chronic foreign exchange shortages and a work force that is growing at about 3 percent a year without many chances for domestic employment will provide incentives to expand Cuban economic services programs abroad. [redacted]

Academic Training: The Most Concessional Program

About 73,000 students from LDCs were enrolled in universities in the USSR and Eastern Europe at the end of 1981, over one-half in the Soviet Union (table 11). Students from African countries made up nearly one-half of the total. Both Soviet and East European scholarship support was heaviest to Marxist LDCs, whose personnel accounted for one-third of all students from developing nations studying in the USSR and Eastern Europe. [redacted]

European Communist countries provide most academic training to LDCs free of charge. Students are awarded full scholarships, which cover subsistence, living quarters, tuition, and transportation. Some East European countries value this assistance at the equivalent of \$10,000 per student per year, which would bring the annual value of European Communist educational aid to the Third World to more than \$700 million. [redacted]

We believe that the USSR, in particular, views its academic program as a potentially high-yield effort. Scholarships have favored African countries (50 percent), touching 48 of them on that continent. For

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Table 11
Academic Students From LDCs
in Training, December 1981

Number of persons

	USSR	Eastern Europe
Total	42,800	29,290
North Africa	2,680	1,805
Sub-Saharan Africa	16,645	13,675
East Asia	15	..
Latin America	4,360	2,440
Middle East	10,395	8,255
South Asia	8,705	3,115

Soviet educational programs are adding considerable numbers to the ranks of professional and skilled workers in 100 LDCs. Returning students, however, apparently have not greatly increased Soviet influence in their home countries. An Afghan official recently said that before the Marxist takeover, personnel trained in the USSR were concentrated at lower levels of the bureaucracy because of poor academic preparation. They were, therefore, already in place during the change in government but probably did not play a major role in causing the revolution. [redacted]

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many African countries, the Soviet scholarship program is Moscow's only aid effort. According to Soviet officials, the USSR plans to expand its effort in Africa by establishing four regional language centers to teach Russian to African students. The most gifted will be provided scholarships to study in the USSR. Moscow also hopes to offer Russian language courses in the secondary schools of some African countries to cut down training costs and to identify candidates for the regional centers, where heavy doses of Marxism-Leninism will be part of the curriculum. [redacted]

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**Economic and Military Programs:
A Regional Analysis**

The Middle East:

New Opportunities for Moscow

Selling arms to Jordan and successfully balancing its aid program among regional antagonists were the most notable accomplishments of the USSR's efforts in the Middle East in 1981. Military sales to the region, the most important asset of Moscow's Middle East policy, rebounded strongly to \$3.5 billion, the third-best year ever. Moscow succeeded in:

- Closing its first arms sale with Jordan in November (for air defense equipment), thus breaking the West's monopoly on arms supply to Amman without upsetting the special Soviet relationship with Syria.
- Concluding a \$3 billion arms reorder with Syria intended to moderate Damascus's reaction to the new Soviet-Jordanian arms connection.

◦ Straddling the fence during the Iran-Iraq war. At the beginning of the conflict Moscow stopped deliveries to Iran and Iraq while encouraging its East European allies to supply some critically needed ordnance and spare parts for Soviet weapons. [redacted] Moscow resumed deliveries to Iraq when it became clear that its policy of "neutrality" was seriously eroding Moscow's influence in Baghdad and nudging Iraq toward closer ties with the West, without improving relations with Iran. Moreover, the USSR witnessed at least \$5 billion in Iraqi purchases of Western military equipment and services, a trend, which over the long term, would reduce Iraq's current dependence on Moscow.

- Maintaining its standing in North Yemen by agreeing to reschedule \$600 million in arms debts and to provide \$55 million in economic aid for roads and water source projects. At the same time, the Soviets maintained favor in South Yemen by signing another commitment for additional arms supplies. [redacted]

Table 12 *Million US \$*
**Middle East: Military and
Economic Aid Agreements, 1981**

	USSR	Eastern Europe
Total	3,562	1,365
Military	3,507	1,365
Egypt	NEGL	NEGL
Iran	224	44
Iraq	58	1,128
Jordan	225	..
Lebanon	NEGL	2
North Yemen	..	162
South Yemen	NA	2
Syria	3,000	26
United Arab Emirates	..	1
Economic	55	..
North Yemen	55	..

For the third year, Moscow sent more than \$3 billion worth of modern armaments into the Middle East. Hardware transfers included nearly \$1 billion in arms to Iraq after the lifting of the embargo in April and about \$200 million in critical spare parts and support materials to Iran. [redacted]

Desperate for hard currency and backed by the USSR, East European suppliers eagerly sought to take advantage of the huge demand for military equipment—largely expendables and ground weapons—generated by the Iran-Iraq conflict. East European Bloc countries signed a record \$1.4 billion of arms contracts, with all but \$200 million going to support more than half of Iraq's critical war requirements. Encouraging its Warsaw Pact allies to meet some of Iraq's munitions and spare parts requirements helped Moscow stay on the military supply sidelines until late spring. At the end of the year, East European countries had delivered nearly \$400 million worth of

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equipment against emergency contracts. Polish shipments overshadowed all others

[Redacted]

[Redacted]

Economic Aid Slips to 20-Year Low. Commercial interests (always close to the surface in Communist aid relations with Arab countries) took the lead in Bloc economic relations with Middle Eastern customers during 1981; for the first time in nearly two decades, the USSR and its European allies did not promise new economic aid to a major Middle Eastern client. Only North Yemen received new aid—\$55 million for water resources development. Moscow also allocated \$200 million under an earlier framework agreement with Turkey to expand the Seydischir aluminum complex. Nonetheless, Soviet and East European willingness to supply food and other consumer goods to Iran and Iraq paid handsome dividends in a resumed flow of oil and burgeoning trade. Trade data show that Soviet exchanges with Iran

[Redacted]

were restored to prerevolutionary levels—\$1.1 billion—and Moscow received 2.5 million tons of Iranian oil (shipped to India) as repayment on Iran's economic and military debt. The oil offset an Iraqi cutoff because of production problems.

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Eastern Europe: Reversing Aid Flows

During 1981 East European countries redoubled efforts (first observed in 1974) to obtain aid from richer countries in the area. In 1974 we noticed a reverse flow of aid from the Middle East to Eastern Europe for the first time in the history of the relationships. The poor state of their economies make Arab loans ever more attractive

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[Redacted]

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The growing financial relationships between Bloc and Persian Gulf countries could assist Soviet efforts to normalize relations. Kuwait is pushing hard for such a rapprochement, believing that a dialogue with the USSR will strengthen the Gulf countries' voice in Moscow on such questions as the Iran-Iraq conflict, the South Yemen-Oman controversy, Afghanistan, and other regional matters. Kuwait also hopes that the USSR can restrain Iranian or Iraqi ambitions in

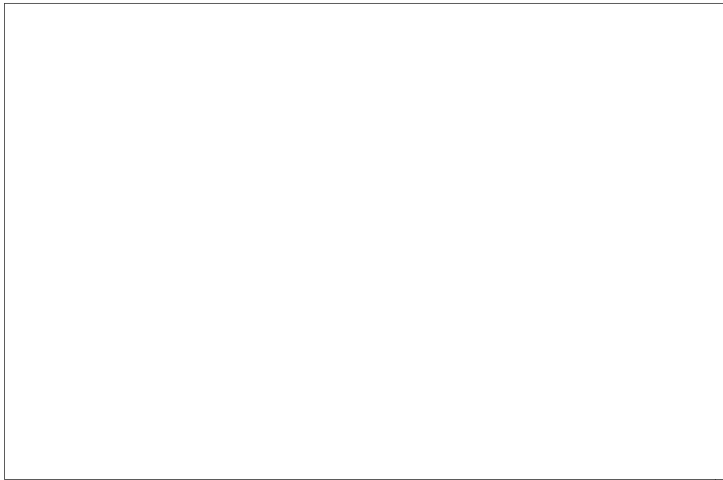
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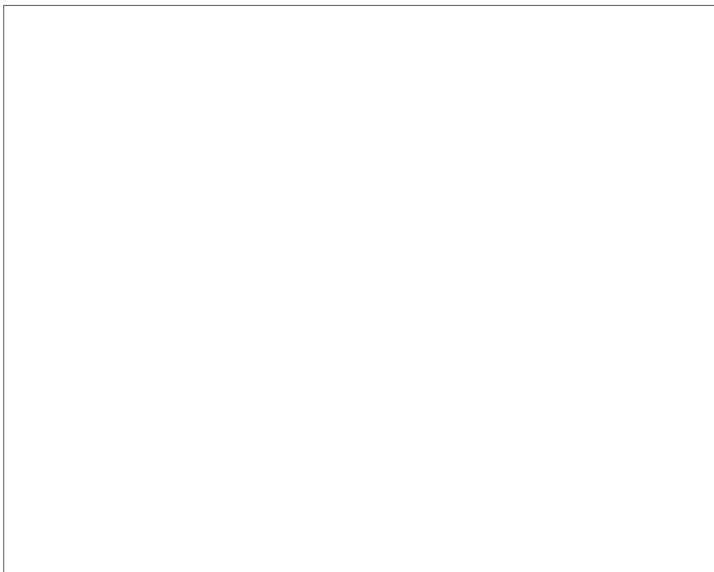
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the Gulf, where it believes Soviet influence is considerable and growing. Press stories surfaced that Saudi Arabia was moving toward opening diplomatic negotiations with Moscow, but no significant action was noted in 1981. (S NF)



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Prospects

While the role of high-technology weapons in the Falkland Islands dispute and the poor performance of Soviet equipment in Lebanon will probably cause some Third World countries to rethink their military supply relationships with the USSR, most major recipients of Soviet military aid will not be able to shift to Western suppliers because of political or economic constraints. Indeed, the USSR could benefit from additional purchases by the losers in these disputes. Syria, for example, will need at least several billion dollars worth of equipment to replace losses in Lebanon and to upgrade air defense capabilities. Furthermore, major deals to replenish inventories in Iraq and possibly Iran seem likely once that war ends. For their part, East European countries will compete vigorously for a larger share of the international arms market. Poor prospects for traditional exports, a growing hard currency bind, and a gloomy economic outlook will prompt these countries to pursue increased sales, even if it means diverting equipment from their own inventories. (S NF)

On the economic side, we believe that the USSR will continue to focus its aid on countries that will provide economic, as well as strategic, benefits. Moscow is aggressively pushing sales of power equipment in Latin America to help finance grain imports from the area. Moscow's new agreement with Angola will provide hard currency and possibly some strategic raw materials as repayments. At the same time, the USSR will undoubtedly continue its historical proclivity to promise aid to countries that have adopted Marxist systems—such as Afghanistan, Ethiopia, South Yemen, and, more recently, Nicaragua. Some of these countries will continue to be dissatisfied with Soviet performance, as the USSR moves more rapidly on more profitable agreements with other LDCs. We expect that Eastern Europe will follow the USSR's lead in providing nominal assistance to fraternal Marxist states; they also will give higher priority to assuring strategic material supplies for their beleaguered economies through other long-established relations with major clients. (C)

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Appendix

Aid to Selected Third World Countries, 1981

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The Middle East

Egypt

Just before his death, President Sadat surprised Moscow in September by expelling some 400 Soviet economic and some diplomatic personnel for alleged involvement in subversive activities. Sadat also announced the canceling of all outstanding contracts between the two countries and closed military offices in Cairo and Moscow.

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President Mubarak has largely abandoned Sadat's anti-Soviet rhetoric and at the end of the year requested the return of Soviet personnel needed for the operation of Soviet-built facilities, such as the Aswan dam, the Asyut cement plant, and the aluminum plant at Nag Hammadi. Mubarak also lifted the ban on cotton sales to the USSR and Eastern Europe imposed by Sadat in 1977 to dispose of Egypt's large surpluses.

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Iran

Tehran guardedly expanded its relations with the USSR to gain access to badly needed military equipment and technical assistance, industrial products, and commodities for its faltering economy.

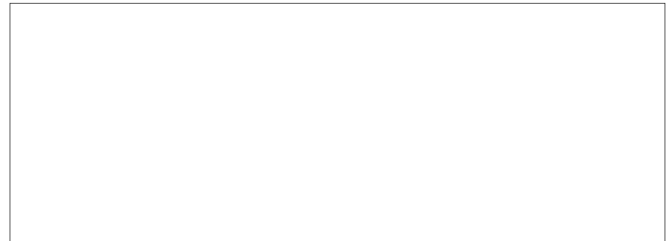
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Non-military trade was restored to prerevolutionary levels because Iran sold its first oil to the USSR (40,000 b/d for India) as a substitute for gas that was used until 1980 to settle accounts. Press reports indicate that North Korea emerged as Tehran's largest source of arms last year, concluding an additional \$565 million worth of agreements.

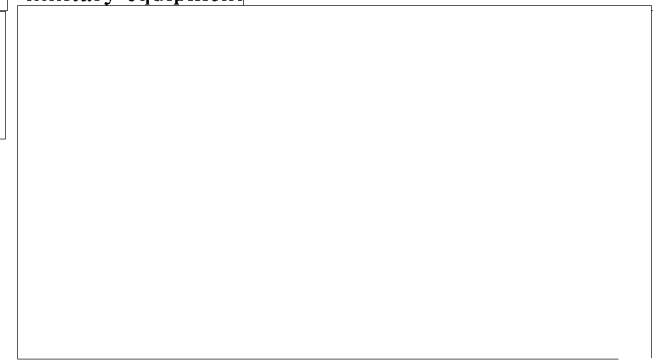
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Iran's inability to procure arms from Western suppliers forced it to obtain Soviet-built and/or designed military equipment.

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While Iran and the USSR were not able to resolve pricing problems to restore gas deliveries to the USSR, the two sides resumed discussions on development projects under at least \$1 billion in agreements signed with the Shah. According to the Soviet news agency TASS, work will begin soon on two power and irrigation dams on the Araks border river, a mining machinery plant at Kerman, and a welding electrodes plant. Soviet offers are pending on new chemical and water projects.

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More than 2,000 Soviet personnel were back at work after Iranian forces managed to secure Soviet project sites that were under attack by Iraq. They activated two smelters at the Isfahan steel plant, stepped up work on the Isfahan power plant, and completed electrification of the Tabriz-Julfa railway under a 1968 agreement. Press reports indicate that the USSR agreed in May to accept more transit goods for Iran, and assigned personnel and locomotives to the

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Iranian railway organization to help clear backlogs at the Iranian border and to get Soviet and Western transit goods flowing more smoothly into Iran. Improved transport facilities, along with the USSR's first Iranian oil deliveries to replace natural gas used for repayments, restored trade to \$1 billion in 1981, about the level reached before the Khomeini takeover.

[redacted]

Because of Iran's hard currency shortage, East European countries also found Tehran more willing to barter arms, food, and industrial products for oil. Romania's economic involvement deepened with the conclusion of a trade agreement to exchange about \$1 billion worth of equipment for 80,000 b/d of oil in 1982, reported by the Romanian press. Romania will participate in petroleum and petrochemical projects, power development, port construction, and the provision of agricultural machinery and equipment.

[redacted]

Even though East European countries have managed to increase their share in trade with Iran, they still accounted for only about 15 percent of Tehran's total trade in 1981.

Iraq

By the end of 1981 the international press was reporting that the USSR's influence with the ruling regime in Iraq was severely eroded by Baghdad's belief that Moscow had let it down at a time when its arms requirements had been most urgent. In fact, the Soviets maintained a complete embargo on arms shipments until the early spring

[redacted]

By early 1981 Soviet officials evidently realized that the arms embargo imposed on Iraq was backfiring:

- Soviet "neutrality" had seriously damaged relations with Baghdad without gaining significant influence with Tehran.
- Western arms deliveries, including sophisticated French Mirage F-1s and Crotale SAMs, were posing serious long-term competition in this key Soviet arms market.
- Baghdad was ardently pursuing closer alignment with conservative, Western-oriented Arab states, as well as seeking a modest improvement in relations with the United States.

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Once the embargo was lifted in April, the USSR instituted an airlift and sealift of heavy weapons to Iraq—deliveries in the remaining eight months of the year were worth almost \$1 billion. Baghdad received its first MIG-25 fighters and AS-9 air-to-surface missiles, more than 200 T-72/5-62 tanks, and huge amounts of critically short spares and special munitions.

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[redacted]

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Hastening to cash in on lucrative trading opportunities, the USSR and Eastern Europe concluded several large commercial contracts with Iraq in 1981. Soviet exports topped \$1.2 billion in spite of Iraq's refusal to allocate any of its limited oil exports to the USSR in return. The two countries ended their longstanding barter relationship on 1 April by instituting hard currency payments, an arrangement that attracted increased Soviet exports in spite of the termination of oil deliveries. In the past, Moscow had made a considerable profit in reexporting barter oil from Iraq to hard currency customers in Europe and elsewhere.

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Moscow probably was able to clear the 10,000-ton backlog of Iraq-bound equipment that piled up after the closure of Iraqi ports in 1980. Still, activity on projects did not reach prewar heights as Iraq's costly war with Iran (estimated at \$1 billion a month) drained resources from development. An estimated

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5,000 Soviet personnel stepped up activity at Soviet power and petroleum projects under a June agreement to extend oil prospecting to Iraq's southern field, to construct a gas liquefaction plant and oil pipeline, to reconstruct power plants damaged by Iranian air raids, and to construct a \$3.3 million earth satellite station. Negotiations neared completion on a \$1.2 billion contract to develop the West Qurna oilfields. The terms of the agreements were not announced, but the USSR may have provided some credits to finance equipment imports. [redacted]

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The sale of SA-8 surface-to-air missiles and ZSU-23-4 air defense guns to Jordan complicates Moscow's relations with Damascus. We believe that Syria is aware that the emerging Soviet-Jordanian arms relationship could enable King Hussein to call upon Moscow for assistance if Damascus again threatens to attack Amman as it did in 1980. Moscow has attempted to allay Syrian reservations by arguing that the Jordanian deal strengthens Arab defenses against Israel. [redacted] 25X1

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Romania maintained the fast pace of activity that has made it Baghdad's most important East European partner. [redacted]

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[redacted] According to press reports from Sofia, Bulgaria offered aid to airport construction and other communications projects and signed a trade protocol calling for exports to reach \$350 million in 1980. [redacted]

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Syria

Damascus remained one of the most important elements in Moscow's Middle East policy in 1981. The mutually supportive relationship, formalized in the long-term Treaty of Friendship signed in October 1980, was reinforced by: [redacted]

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Jordan

Moscow's \$225 million hard currency sale of air defense equipment to Jordan, funded by Iraq, provided the USSR with a long-sought breakthrough in relations with this moderate Arab state. We believe that the Israeli raid on Iraq's nuclear facilities at midyear reinforced Jordan's decision to acquire a mobile low-to-medium air defense system, which the United States has for years refused to supply. Moscow is expected to begin military deliveries to Jordan in second-half 1982 and to complete them in late 1985. Only a few Soviet personnel will accompany the equipment; Jordanians will be trained in the USSR or in Iraq. While King Hussein maintains the Soviet order was a one-time purchase to fill a specific requirement, more purchases are possible if the Soviet equipment performs well, and the United States and Western suppliers fail to meet Jordan's perceived military hardware needs. [redacted]

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- Near-record weapons systems deliveries valued at more than \$1.7 billion—more than to any of Moscow's other Third World customers in 1981. 25X1

[redacted]

[redacted] Under-scoring the dimensions of the closer relationship, the two countries also carried out a joint naval-amphibious landing exercise at midyear involving large forces from both countries. [redacted] 25X1

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The Soviet-Syrian relationship has remained strong enough to survive political challenges from both sides. Syria did not raise serious objections to the USSR's sale of air defense equipment to Jordan—a country Syria suspects of complicity in attempts by Syrian dissidents to overthrow the Assad regime. On the

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other hand, Moscow did not criticize Syria's deployment of missile equipment in Lebanon in the spring of 1981 without prior consultation. The Soviets correctly feared Israeli reprisals but belatedly endorsed the Syrian move. Israel's annexation of the Golan Heights in December and the Israeli advance into Lebanon are testing the depth of Soviet commitment to Syria, particularly in the realm of interpreting the mutual defense aspects of the Friendship Treaty.⁵ Moscow is responding to the Syrian-Israeli conflict with a limited arms resupply effort, heavy political support, and probably an increased naval presence in the region but did not go so far as to send Soviet troops to the battle area. It is likely that in the aftermath of the fighting in Lebanon, Moscow will agree to make good all equipment losses and to upgrade air defense capabilities. [redacted]

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Syrian financial problems and Eastern Europe's requirement for hard currency payments again kept military purchases from Eastern Europe at a low ebb. Small orders totaling \$26 million—mostly Air Force related—were placed with Bulgaria, Czechoslovakia, Poland, and Romania. [redacted]

25X1

Communist countries continued their broad-based effort in Syria's economic sector with 4,125 personnel working on projects under \$740 million of outstanding credits. European Communist countries also signed agreements for trade valued at more than \$3 billion over the next five years, and an estimated \$500 million in new development contracts, repayable in Syrian goods such as petroleum, phosphates, and cotton. Highlighting the new agreements were:

- A Soviet pact to increase trade to \$2.7 billion over the next five years, \$150 million in contracts to provide railroad equipment, and an agreement to study a gas pipeline project.
- A five-year Bulgarian trade agreement valued at \$500 million.
- A \$150 million Czech contract to expand the Homs oil refinery.

⁵ In spite of Syria's disappointment with the performance of Soviet equipment, we have not detected any changes in the direction of the Soviet-Syrian arms relationship. [redacted]

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The USSR also signed protocols to continue prospecting for the Communist-built oil industry, handed over the 750-kilometer Latakia-Qamishlie rail line built with \$40 million of credits, and began negotiating further rail construction that will enable Syria to develop the port of Baniyas. Moscow reneged, however, on an earlier promise to bid jointly with Poland on a \$500 million power plant contract. [redacted]

25X1

Romania, Syria's largest Communist donor, put finishing touches on the Baniyas oil refinery and the Homs triple superphosphate plant, for which it provided \$275 million in credits. The refinery eventually will more than double Syria's product output. With the completion of these major projects, Romania's heavy industrial program is drawing to a close. Both Syria and Romania have been unable to reach agreement on new projects, because Romania has increased the interest rates on new credits to 5 percent. East Germany, with \$350 million of outstanding credits, also was active in the construction of a huge cement plant at Tartous and the negotiation of a \$30 million contract, not yet final, to build 10 flour mills. [redacted]

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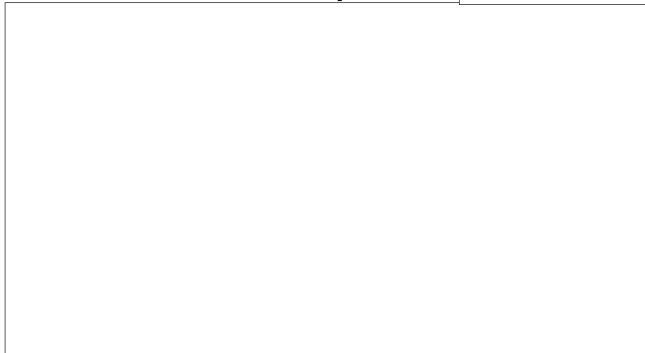
The Yemens

Moscow's ability to work both sides of a conflict is particularly evident in the strategically located Yemens. Capitalizing on the mutual suspicions between North and South Yemen and Saudi mistakes, the USSR has created military dependence in both countries. [redacted]

25X1

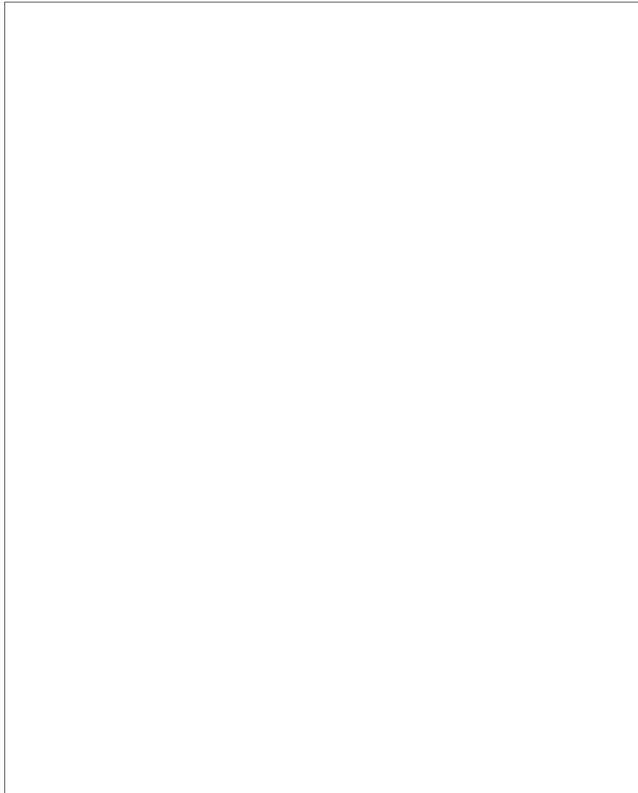
North Yemen. Sana has increasingly turned to Moscow for military supplies and training since the late 1970s because the US program to upgrade the YAR forces (dependent on Saudi financing) has fallen far short of President Salih's expectations. [redacted]

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Moscow's interest and presence in South Yemen has grown steadily since the Soviets lost their logistic support facilities in Somalia in 1977. South Yemen has allowed the Soviets access to naval and airbase facilities and the use of communications facilities. The closeness of Soviet-South Yemeni ties was demonstrated early in 1980, when it provided Aden with SCUD surface-to-surface rockets capable of reaching Sana and Somalia's major port, Berbera [redacted]

25X1

As one of four fraternal socialist states in the Third World singled out for a special aid effort by CEMA members, South Yemen hosted nearly 3,000 economic personnel from the USSR, Eastern Europe, and Cuba in 1981. Together, European Communist countries have pledged \$325 million in assistance for South Yemeni development, and Aden also expects eventually to receive Libyan funding for Soviet-built projects under its trilateral agreement with Libya and Ethiopia signed in 1981. Still, Yemeni officials have expressed annoyance over Moscow's lagging economic program. The USSR has agreed to accelerate construction of a power plant in Aden and rescheduled South Yemen's outstanding debt. [redacted]

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Moscow's \$55 million in new economic pledges to upgrade the Soviet-built Hodeidah-Mocha road, to carry out an extensive water resources survey, and eventually to build two dams should revive the flagging Soviet economic effort in Sana. [redacted]

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[redacted] Moscow's only sizable project in North Yemen--expanding the Bajil cement plant--has caused much local friction because of its slow pace. [redacted]

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South Yemen. The USSR did not sign any major military agreements with South Yemen in 1981 but consolidated its already close, single-source arms supplier relationship with \$120 million in deliveries under earlier contracts and a military advisory presence that reached 1,000 personnel. Aden has received more than \$850 million in modern Soviet military equipment in the last five years. In addition, new East European accords this year included a 20-year Friendship Treaty with Bulgaria and East German protocols calling for closer economic ties. [redacted]

25X1

North Africa

Algeria

The USSR attempted to use its economic and military programs in Algeria to stem a deterioration in relations caused by differences over Afghanistan and the taking power (in 1979) of an Algerian Government less sympathetic to Soviet policies. Military deliveries surged to their highest level last year, exceeding \$1 billion, the result of the \$3 billion accord signed in 1980. [redacted]

Despite its dependence on the USSR, Algiers pursued talks with other suppliers to expand its sources of arms over the long term. Even though Algerian

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officials want to diversify to improve their nonaligned image, logistic, financial, and integration problems make the cost extremely high. [redacted]

25X1

Moscow's economic relationship with Algeria took on new dimensions with several hundred million dollars of agreements to construct priority projects in Algeria's current five-year development plan. Terms for these new agreements were not revealed, but Moscow probably will provide trade credits (possibly with 10-year repayments) to cover Soviet participation. We have not been able to confirm rumors that the Soviets agreed eventually to provide \$3 billion in credits under the 1976 framework agreement between the two countries. Major projects agreed to during 1981 included:

- A 420-km pipeline from Alrar to Hassi R'mel.
- Four large irrigation dams in northern Algeria.
- A 500,000-ton cement plant at Djerjela.
- Forty vocational training centers.
- A spare parts shop at the Annaba steel plant.
- A comprehensive water-use plan for the Annaba and Saharan Atlas regions.
- Housing construction in Algiers and Tlemcen.

The USSR also is considering aid to Algeria's extensive planned railway construction and to the minerals industry. [redacted]

25X1

East Germany, one of Algeria's major Communist donors, provided \$250 million in new credits in 1981 for projects in the engineering industry. Communist countries also provided nearly 12,000 project technicians, teachers, and doctors to Algeria in 1981.

25X1

Libya

Libya imported more than \$1 billion in Soviet arms in 1981, bolstering each branch of its military establishment and enhancing Qadhafi's role as a leading arms supplier to insurgent movements. The array of new equipment, sold under a 1980 agreement valued at \$8 billion, included advanced Soviet fighters, IL-76 transports, assorted naval craft, tanks, and missiles. East European countries signed nearly \$650 million of new agreements with Tripoli. [redacted]

25X1

Libya is by far the USSR's largest Third World arms client, having purchased about \$15 billion of military materiel from the USSR since the 1973 Middle East war. About one-half of these purchases have been delivered and include a wide variety of advanced ground forces weapons, fighter aircraft, air defense systems, and naval vessels. Deliveries of about \$2 billion annually over the next several years probably will include higher performance MIGs and more lethal ground weapons, and will be accompanied by an increase in the Soviet military presence. Currently, an estimated 2,000 Soviet advisers and technicians are in Libya. While Colonel Qadhafi's massive defense procurement project has given Libya one of the largest and most modern inventory of arms and equipment in Africa, shoddy maintenance and storage practices seriously impair its operational readiness. [redacted]

25X1

In addition to large hard currency earnings generated by arms sales to Libya (boosted by higher prices than Moscow charges most other clients), the USSR has acquired access to Libyan port facilities for its merchant vessels, gradually expanded the Soviet presence in Libya, and developed a viable working relationship with the Libyan leadership. Moscow has supplied materiel far in excess of Libya's legitimate defense needs, thus providing most of the wherewithal for Qadhafi's role as an arms supplier to other states and to insurgents. [redacted]

25X1

The Communist economic effort in Libya has been nearly as large as the military program and just as profitable. Commercial construction and services contracts are valued at several billion dollars, and there were no cutbacks in development projects in 1981 in spite of Libya's worsening cash flow problems. [redacted]

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Even as several major projects drew to a close, Moscow deepened its involvement in Libya's economy with the conclusion of contracts to construct a nuclear power plant at Surt and to participate in the second stage of the Misurata steel complex—projects that could require more than \$1 billion in Soviet equipment and services. Terms of the new agreements were

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not announced, but current Libyan financial difficulties, and Moscow's reluctance to accept more Libyan barter oil, may make it necessary for the USSR to extend its first economic credits to Libya. Previous deals have been for cash. Meanwhile, work neared completion on: (a) the \$500 million nuclear research complex at Tajura, (b) a 570-kilometer gas pipeline to feed the Misurata steel plant, and (c) a comprehensive development plan for the gas industry. Soviet technicians also were active in petroleum operations at the Sarir field. [redacted]

25X1

East European technicians employed in Libya soared to 30,200, supplementing lucrative equipment sales to Tripoli with hard currency earnings from technical services that reached at least \$300 million a year. President Qadhafi's whirlwind trip to Hungary and Romania in the fall resulted in wide-ranging agreements with Bucharest on trade, petroleum prospecting, production, marketing, and construction projects.

25X1

[redacted]

Czechoslovakia signed a \$180 million hard currency technical assistance agreement, its first such pact with Libya. Yugoslavia, a major partner since the early 1970s, signed contracts to construct an additional \$2 billion in projects and also maintained 7,000 technicians in country. [redacted]

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Morocco

Deepening strains in the Soviet-Moroccan relationship over the Polisario's use of Soviet missiles and other equipment (supplied by Libya and Algeria) against Moroccan forces translated into a growing chill in political relations during the year. East European countries have adopted a noncontroversial posture on the Western Sahara and pursued low-key commercial exchanges of goods and services for Moroccan phosphates. [redacted]

25X1

During the year, the USSR focused on economic matters. By yearend it had performed about a third of the surveys for the \$2 billion Meskala phosphate project; feasibility and engineering studies are to be completed sometime in 1982. Moscow also handed

over a feasibility study on a 1,000-MW direct combustion power plant at the Timahdit oil shale deposits. [redacted]

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[redacted] The future of Soviet-Moroccan trade, however, is in doubt since the two countries abandoned clearing arrangements in favor of hard currency settlements at yearend. Friction already has arisen over Soviet insistence on hard currency payment for some of the 500,000 tons of oil promised in 1981 because of the termination of the agreement to barter oil for Moroccan citrus. Morocco's seizure of Soviet fishing boats in restricted Western Saharan waters in January also contributed to strains in the relationship. [redacted]

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Technical assistance was the mainstay of most East European programs as more than 2,160 teachers, doctors, and other personnel worked in Morocco during the year. [redacted]

[redacted]

25X1

25X1

South Asia

Afghanistan

The military takeover in Afghanistan has forced Moscow to augment its already large aid commitments to shore up the Afghan economy and rebuild the military structure. Since the December 1979 invasion, the USSR has provided more than \$1 billion in new Soviet grant aid to Kabul, about one-half for military improvement and the rest for consumer goods and other commodities. The Soviets also increased their troop strength in Afghanistan during the year as the war of attrition intensified. [redacted]

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The USSR signed pacts for \$230 million in new military aid with Kabul last year, including transport aircraft, helicopters, tanks, and a military training center for Afghan officers. [redacted]

[redacted] Identified deliveries to Afghan forces last year included 15 Fitter aircraft, transport aircraft, helicopters, and other equipment. Soviet military supply agreements with Kabul since the Marxist takeover have reached \$2 billion. [redacted]

25X1

Moscow's political stake in Afghanistan is underlined by its unprecedented \$860 million of economic support to the Marxist government, one-half of it free of charge. Moscow is refashioning Afghan Government institutions along the Soviet model by placing hundreds of advisers in ministries and financial institutions with varying degrees of success. The USSR also has tied Afghanistan's economy more closely to its own by monopolizing trade, connecting northern Afghanistan to the Soviet power grid, and developing industries whose production is oriented toward the Soviet economy. Among the hundreds of agreements announced during the year, the most notable were:

- A five-year trade agreement (1981-85) designed to triple trade over the 500-million-ruble level of 1980.
- An agreement to proceed with transportation and servicing facilities that will almost certainly be used to supply Soviet troops
- A contract to deliver 150,000 tons of wheat as a grant.
- An agreement to supply 300,000 tons of petroleum products. [redacted]

25X1

In spite of a slowdown on development projects in 1981 because of widespread insurgent activity in the countryside, disbursements of economic assistance totaled \$215 million, reflecting heavy Soviet commodity deliveries under grant agreements. The USSR also continued work on oil and gas development, the half-billion-dollar Ainak copper complex, and agricultural development and processing projects. Soviet technicians also started work on a \$200 million power transmission project; on straightening border rivers; and on truck maintenance, bridge, railway, and oil storage facilities that will support the Soviet military presence. [redacted]

25X1

East European countries have actively supported Soviet aims in the country with \$170 million of credits since the Marxist takeover to finance agriculture and industry. Czechoslovakia agreed to refurbish the US-built Helmand Valley irrigation project and had delivered half of the equipment necessary by yearend. Bulgaria worked on agriculture and processing projects, while East Germany delivered communications and power equipment. About 250 East European advisers supplemented the 3,500-man Soviet economic presence in Afghanistan during 1981, and 8,700 Afghans attended Soviet and East European educational institutions. [redacted]

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India

Political differences between India and the USSR because of Afghanistan were overshadowed by the fundamental strength of their military and economic relationships. Relations deepened with a \$300 million contract for transport aircraft that will further tie India's Air Force inventory to Moscow, while long-term economic protocols prescribe a Soviet presence in Indian industry for the next decade. [redacted]

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Moscow remains India's primary arms supplier.

[redacted]

25X1

Although Western arms suppliers are making some inroads into the Indian arms market, including the recent French sale of Mirage 2000s, Moscow is likely to retain its leading supplier role through the 1980s. The Soviets sell to the Indians on easy credit terms, and New Delhi finds repayments in rupees for Soviet weaponry very attractive. New opportunities for Moscow have been opened by the US commitment to rearm Pakistan. Indian military planners (claiming that India will be the ultimate target for Pakistan's new US aircraft) will probably accelerate purchases of advanced MIG aircraft and air defense systems. [redacted]

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Under its economic program, the USSR focused on projects to be constructed during India's Sixth Plan (1980-85) with some \$800 million of outstanding Soviet credits. Contracts were signed for: (a) \$200 million of equipment for a 3-million-ton steel complex at Vishakapatnam, (b) a dam and irrigation project using experimental blasting techniques in Himachal Pradesh, (c) oil prospecting over the next 10 years, (d) a comprehensive power development plan for Madhya Pradesh that will take five years to complete, and (e) coal development that could result in an annual production increase of 50 million tons. Work proceeded on modernization of the Bhilai and Bokaro steel plants, and the 6-million-ton Mathura oil refinery—which will increase India's refinery capacity by almost 20 percent—began trial production. The two countries also continued to explore opportunities for Indian participation in Soviet projects abroad. New Delhi has signed agreements to supply equipment to Soviet projects in Algeria, Egypt, Iraq, Libya, Nigeria, and Turkey. [redacted]

25X1

East European countries focused on expanding trade by selling industrial plants. Czechoslovakia offered to participate in metallurgy and power development projects, particularly through the Czech-built Bharat heavy electrical equipment plant—one of the world's 10 largest power equipment manufacturers. Romania won a \$90 million contract to build an ore pelletizing plant at the Kudremukh iron deposits, but offers to construct a 1.5-million steel plant and power plant were turned down. Hungary plans to build a heavy truck manufacturing facility, while Bulgaria agreed to expand economic and commercial ties. [redacted]

25X1

Pakistan

Despite high-level contacts, the USSR has not been able to persuade Pakistan to moderate its vehement anti-Soviet stand on Afghanistan. With firmer financial backing from Arab supporters, Pakistan stepped up its search for more and better armaments in the West and from its traditional Chinese sources. [redacted]

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In the absence of a military relationship, the USSR is using economic offers in an attempt to convince Pakistan to adopt policies friendly toward Moscow.

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[redacted] A high-level Soviet delegation attended the inauguration of production at the Karachi steel complex—the largest construction project in Pakistan, with more than 800 Soviet technicians at the plant site. The USSR also began construction of an \$18 million tractor station under credit. [redacted]

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25X1

East European relations with Pakistan were lackluster. Poland was forced to cancel a \$90 million credit for eight ships because of the economic situation at home. Only Romania signed a new agreement—to construct an oil refinery in Karachi on undisclosed terms. [redacted]

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East Asia

Burma, always closer to Eastern Europe than to the USSR, hosts one of Czechoslovakia's largest aid programs in the Third World. Under agreements valued at \$180 million, Czechoslovakia is building several plants to produce automotive equipment. [redacted]

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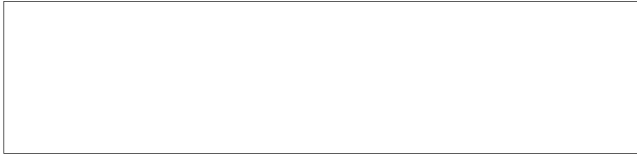
Indonesia's active participation in ASEAN and its opposition to the Soviet role in Afghanistan brought political relations to a standstill. Jakarta blocked Soviet participation in the Mrica hydropower project, for which the Soviets have offered equipment credits after completing a feasibility study last year. A Romanian offer to assist in oil exploration and mining met with a warmer reception, as did East Germany's efforts to expand activity under \$75 million of trade credits provided in 1977. [redacted]

25X1

Moscow's offers to increase contacts with the *Philippines* met with unwavering resistance during the year, but political differences did not affect commercial relationships. A Soviet offer to finance a power plant, Moscow's only offer of economic aid to an East Asian nation this year, was turned down because it would

bring Soviet technicians into the country. Nonetheless, the USSR was Manila's largest Communist buyer, taking \$200 million worth of agricultural products in 1981 against negligible exports.

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Latin America

Grenada

Grenada's close alignment with the Castro government is turning the island toward Communist sources for military assistance, highlighted last year by the first direct delivery of Soviet military equipment.

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Cuban engineers are also helping to construct a large airfield at Pointe Saline (under a \$10 million economic agreement) with a potential to accommodate Soviet MIG-23s. A high-level government official publicly stated that the new airfield would be open to use by both Cuba and the USSR and could support Soviet/Cuban high-performance aircraft operations and give Cuba a refueling stop for military flights to and from Africa and elsewhere in Latin America. About 500 Cuban construction personnel are in Grenada in connection with the airport project.

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Nicaragua

The Soviet Union actively exploited new opportunities to forge military and economic aid ties with Nicaragua in 1981, signing new military agreements and providing \$80 million in economic aid.

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Other Communist military pledges included \$2 million from East Germany for unspecified goods, a Vietnamese accord to supply about 10 US-made helicopters, and Czech and Cuban agreements for ground forces equipment—mainly small arms and ammunition.

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Since May 1981 Managua has received a wide variety of increasingly modern Soviet-made equipment to supplement earlier deliveries of vintage World War II arms. Most of the Soviet small arms deliveries have been funneled through Cuba, because of Castro's assertive policy in the region and Moscow's desire to assume a low profile. The latter circumstance also has led the Soviets to pressure Algeria to transship heavier Soviet-made weapons to Nicaragua.

25X1

Deliveries from Cuba in the past few years have included small arms, antiaircraft guns, and light artillery pieces. Some Soviet arms deliveries to Cuba in 1981 probably included replacements for Cuban arms shipped to Nicaragua. We are convinced that some older type Soviet artillery pieces recently identified in Nicaragua were previously delivered by the USSR to Cuba for transshipment.

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The following are among items of military equipment of Soviet or East European origin currently in Nicaragua, most of which were delivered in 1981:

- 2 MI-8 helicopters.
- 6 AN-2 Colt transport aircraft.
- 25 T54/55 tanks.
- 12 BTR-60 armored personnel carriers.
- 48 ZIS-2 57-mm antitank guns.
- 12-16 152-mm howitzers.
- 88 ZPU-4 and ZU 23/2 antiaircraft guns.
- 60 SA-7 antiaircraft rocket systems.
- 800 trucks and numerous small arms of Soviet, Czechoslovak, and East German make.

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For the near term, efforts to expand Nicaraguan airfields, coupled with reports of Sandinista air force personnel in training in Cuba and elsewhere to fly MIGs, strongly suggest that Moscow is planning future deliveries of fighter aircraft, probably by way of Cuba.

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Cuba provides the largest number of military and security personnel—estimated at about 1,700. The USSR maintains about 65 personnel in country to advise key members of the Nicaraguan armed forces, and pilots and technicians to fly and maintain the MIG-8s and the AN-2s. East Germany has provided 60 advisers to work directly with Nicaraguan state security organizations. [redacted]

\$70 million in new aid, mostly to support the activity of 4,000 teachers, doctors, and other civilian personnel. [redacted] 25X1

South America

Argentina

Argentina's growing economic relationship with the USSR has not yet been translated into broader political support for Soviet policies by the anti-Communist regime, but it is likely that concern for its grain market will be a major factor in Argentine policies toward Moscow. In 1981 Buenos Aires was the main beneficiary of the US embargo on Soviet grain purchases with sales to the USSR that reached 10 million tons valued at \$3.2 billion. The USSR also signed agreements to buy a minimum of 5 million tons of grain annually over the next five years. [redacted] 25X1

At the same time, Argentina resisted Soviet pressures to redress the \$3.2 billion trade imbalance in 1981 (Moscow's largest ever with any Third World country) by accepting Soviet financing for hydropower equipment. According to press reports, Argentina agreed to let the Soviets supply 15 percent of the equipment for the multibillion-dollar Yacyreta hydropower project, but Moscow is pressing for more meaningful participation in Argentina's power development program. Moscow may also hope that Argentina's recent defeat in the Falklands may open the door for military exports to Argentina, but we have seen no movement so far in that direction. The USSR also signed agreements to supply enriched uranium and heavy water to the nuclear industry, and has begun fishing research under an agreement ratified in 1981 [redacted]

Brazil

Brazil, the largest Latin American recipient of Communist economic aid (\$925 million), also has emphasized the commercial side of its Communist relationship. Brazil's view of European Communist countries as promising markets for Brazilian goods was reinforced in 1981 by major Soviet purchases of grain and the conclusion of a long-term trade agreement that

Moscow's economic aid reached \$80 million under a 1980 framework agreement that calls for assistance to agriculture, fisheries, mining, and energy. In an unusual move, the Soviets provided 20,000 metric tons of wheat in the spring as a grant, which together with 60,000 tons of free grain from Bulgaria and East Germany more than made up for the cancellation of P.L. 480 grain deliveries for 1981. In July the USSR allocated \$50 million in 10-year credits for the purchase of agricultural, roadbuilding, and communications equipment, which already has begun to arrive in Nicaragua. The USSR also has sent six research vessels to conduct an extensive survey of Nicaraguan fisheries resources. Nicaraguan press reports indicate that Managua is negotiating for Soviet participation in an 180-MW hydropower project, for which it expects \$150 million in Soviet trade credits. [redacted]

Clearly supporting Moscow's initiatives, East European countries provided upward of \$40 million in new economic commitments as well as an estimated \$20 million in short-term financing for commodities and raw materials. The new pledges bring Communist commitments since the leftist takeover in 1979 to \$170 million. East Germany has been the most active under a \$35 million program that began in 1979, providing food and aid to public health. Bulgaria appears ready to move rapidly on \$25 million in aid for agriculture, industry, and mining promised in 1981 and is negotiating an additional \$30 million for power development. While commodity grants have taken up a higher proportion of aid than is usual for European Communist programs, all of the credits have been heavily oriented toward equipment sales and have carried harder terms than Communist development credits. An estimated 125 East European technicians and 75 Soviets are presently in Nicaragua in connection with the aid program. Cuba provided

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press reports say is worth \$6 billion, mostly in Brazilian exports. [redacted]

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[redacted]

Since 1973, Peru has acquired a wide variety of Soviet equipment for its Army and Air Force. In addition to SU-22 fighters armed with AS-9 tactical air-to-surface missiles, Peru has T-54/55 medium tanks, SA-3 and SA-7 surface-to-air missile systems, ZSU-23/4 radar-controlled anti-aircraft gun systems, helicopters, transport aircraft, and various logistic and support equipment. On the economic side, there was no progress on the Olmos irrigation project, for which Moscow has provided \$250 million credits. [redacted]

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A number of smaller agreements, however, assure growing Soviet ties with Brazil, including: (a) a \$55 million credit repayable over 10 years to finance technical services for 10 methanol plants; (b) a \$3.5 million oil-exploration project in Sao Paulo; (c) licensing of Soviet shale-oil-processing techniques to produce oil and gas; (d) licensing for coal gasification, coke quenching, and synthetic rubber technology; and (e) sales of railroad equipment and a floating drydock. The Brazilian press reports that the USSR also is exploring provision of aid to the massive Carajas mining development project in return for mineral deliveries, but Brazil has not been responsive, preferring collaboration with Western suppliers. [redacted]

[redacted]

Brazil maintained cordial relations with East European governments during the year. Expressing a willingness to help Poland through its economic crisis and to avoid triggering a default, Brazil accepted a Polish rescheduling proposal for \$1.6 billion in debt. Brazil also provided an additional \$220 million in credits to cover Polish imports (in spite of Polish defaults on \$100 million of payments in 1981) that has reversed the traditional flow of aid from Eastern Europe to Brazil. Romania diverted an unused \$150 million, 1975 credit to Brazil's Carajas minerals development project in an attempt to encourage credit use. Other East European countries worked on power development and transportation projects. [redacted]

Peru

Peru's most important relationship with Moscow is a military one, a legacy of the USSR's successful effort in the early 1970s to provide arms to Peru on concessional terms. [redacted]

[redacted]

Sub-Saharan Africa

Angola

The USSR largely ignored Angola's requests for better air defense weapons after South African cross-border raids in the fall, [redacted]

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[redacted]

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Angolan President dos Santos also approached several East European countries for hardware, but by yearend only Hungary came through with an agreement to provide communications equipment. In contrast, Cuba responded to Luanda's requests by sending 6,000 additional troops to Angola, raising the Cuban military presence there to a record 23,000. Moscow probably sanctioned this increase in an effort to ensure the continued viability of the Angolan Government without increasing its own military commitment. [redacted]

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Moscow's decision to turn down Luanda's request for additional defensive weapons may have signaled Soviet displeasure with Angola's economic rapprochement with the West. A 10-year trade and economic cooperation agreement signed early in 1982 and valued at \$2 billion should sweeten relations, although it has become obvious to Angolan officials that the Communist countries will not commit sufficient resources to assist economic recovery as military expenditures continue to drain the economy. Even with 10,400 Communist personnel, Angola has not been able to restore production of basic necessities to prewar levels; Luanda now is attempting to hire Portuguese

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experts to rebuild the country's basic infrastructure. According to foreign businessmen, most Angolans strongly resent the Communist, particularly Soviet, exploitation of their economy. Moscow has been harshly criticized for causing domestic shortages by overfishing Angolan waters under their fishing treaty and for siphoning off hard currency to pay for inferior goods and services. [redacted]

The Soviet and Cuban military presence in Ethiopia in 1981 remained at about 1,700 and 12,000 personnel, respectively. The Soviets are mainly involved in advisory functions and overseeing the integration of new weapons systems, while most of the Cuban troops still are deployed in the Ogaden region. [redacted] 25X1

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Nonetheless, Angola signed agreements with several Communist countries to move ahead with economic projects that have been under discussion for some time. Bulgaria agreed to build assembly and maintenance shops for road transport equipment and completed a project to process rock phosphates. Czechoslovakia agreed to provide credits for unidentified projects, while East Germany signed protocols to aid energy and mining. Soviet technicians were involved in oil projects, agriculture, power development, and public health. [redacted]

There was also some movement in the economic aid program where earlier Ethiopian expectations have been dashed by the Soviet performance. Under a series of protocols, the USSR agreed to:

- Sell Soviet oil at a reduced price that saves Ethiopia \$20 million on its oil bill in 1982.
- Provide nearly \$30 million of commodities for 1982.
- Build vocational training facilities valued at \$11.5 million free of charge.
- Go ahead with the multimillion-dollar Gambella irrigation scheme and Melka Wakana dam and hydropower project.

25X1

Ethiopia

Moscow's continuing strategic interest in the Horn of Africa and Red Sea was demonstrated dramatically by its new economic and military commitments to Ethiopia in 1981. [redacted]

Ethiopia also employed 1,000 Soviet technicians on smaller projects, such as mechanization of gold mines at Adola, construction of grain and refrigerated storage facilities, and expansion and overhaul of the Soviet-built oil refinery. [redacted] 25X1

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East European countries have thrown their support behind the Soviet effort in Ethiopia with almost \$360 million in credits since the revolution and 800 technicians in 1981. East Germany worked on port development and a cement plant, as well as a textile complex in collaboration with Czechoslovakia. At least 1,000 Cubans provided service as doctors, teachers, veterinarians, and construction workers under Havana's grant technical assistance program. [redacted] 25X1

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Mozambique

According to the US Embassy in Maputo, Mozambique considers Communist countries its natural allies and has relied on them to fill its defense needs. South African cross-border raids and intensified South African-supported dissident activities in 1981 pushed Mozambique toward greater dependence on the USSR and its allies for more advanced support and security assistance. The number of Cubans rose to 1,000, and the Soviets were increasingly active in

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planning counterinsurgency operations, in spite of Mozambique's dissatisfaction with earlier advisory support. [redacted]

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European countries have not gained as much influence over Mozambique's economic affairs because Maputo has followed more pragmatic policies and has encouraged Western aid, trade, and investment. Still, the economy was the focus of Communist attention in 1981, as the USSR and Eastern Europe took steps to enhance their presence with \$120 million in new economic pledges (twice as much as to any other African country in 1981) and a 10-year Soviet-Mozambican economic cooperation agreement. According to the US Embassy in Maputo, the USSR and East European countries refused Mozambique's application to join the Council for Mutual Economic Assistance, however, fearing a drain on their limited multilateral aid resources. [redacted]

25X1

Moscow's new long-term economic agreement, signed in May, adds \$45 million in credits to the \$130 million already extended. The USSR agreed to: (a) rehabilitate the Moatize-Beira rail line, (b) expand agriculture, (c) provide a \$13 million floating dock to repair Soviet and Mozambican fishing vessels, and (d) to build coal mines, agricultural stations, and a tractor assembly plant. The USSR also was preparing bids to develop the aluminum industry and provide

equipment for the 1920 MW Cabora Bassa hydro-power plant expansion. These projects could require several hundred million dollars of Soviet financing. About 500 Soviet personnel already are working in 17 sectors of Mozambique's economy, and a June agreement brought additional Soviet geologists to search for nonferrous and rare metals, precious and semiprecious stones, bauxite, coal, and gas. [redacted]

25X1

Czechoslovakia, Hungary, and Romania also signed wide-ranging new economic and technical agreements with Maputo. Czechoslovakia agreed to cooperate in a metallurgical project that will involve sending 1,200 Mozambicans to Prague for training. East Germany, already heavily involved in the coal industry, provided \$75 million for equipment purchases and power projects and agreed to build a high school in East Germany to train 1,000 Mozambican students annually. East Germany came under fire in the Mozambican press for the poor quality of its trucks and agricultural equipment, which have delayed progress at the Limpopo Valley agricultural project. About 1,300 East European personnel were working on projects in Mozambique in 1981. [redacted]

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