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USSR: The Cost of Aid to Communist States

An Intelligence Assessment

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USSR: The Cost of Aid to Communist States

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An Intelligence Assessment

*Information available as of 1 June 1981
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This assessment was prepared by [Redacted]
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This paper was coordinated with the Offices of
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Europe. [Redacted]

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**USSR:
The Cost of Aid to
Communist States**

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Key Judgments

The cost of Moscow's aid to other Communist countries has increased dramatically over the last 10 years. In 1971 the costs were relatively small—\$1.7 billion. By 1975 they had risen to \$6.6 billion, and in 1980 they totaled \$23 billion. The economic burden can now be considered sizable—equivalent to more than 1.5 percent of Soviet GNP in 1980. (Total defense spending amounts to 12 to 14 percent of GNP.) Moreover, a substantial portion of the costs represents foregone earnings of hard currency that the USSR increasingly needs to sustain its modernization and consumer programs.

Support for Eastern Europe is the heaviest burden and is largely responsible for the phenomenal growth in costs. It accounted for 20 percent of total costs in 1971 but nearly 80 percent in 1980. Eastern Europe's heavy dependence on the USSR for subsidized fuel deliveries accounts for most of the increase. The costs of supporting Cuba have been much smaller than the costs of propping up Eastern Europe, although by 1980 they were five times the 1971 level. These costs also reflected heavy subsidies—for exports of sugar and nickel and imports of petroleum. Soviet help for Vietnam was about one-third that given to Cuba in the same period.

Soviet aid to client states falls into four major categories—trade subsidies, trade surpluses, conventional economic aid, and military aid. Trade subsidies, only 25 percent of the total in 1971, climbed to 80 percent of total costs by 1980. Soviet trade surpluses—resulting from the inability of Eastern Europe to pay for increasingly expensive imports of Soviet fuels and raw materials—also gained in importance. Economic and military aid were a much smaller share of the total by 1980 but still managed to grow by 10 percent per year from 1971 to 1980.

The absolute cost of supporting Moscow's Communist allies will remain high during the first half of the 1980s but probably will level off somewhat after that. The bill for subsidies is likely to decline but may be offset by an increase in other forms of aid:

- Subsidized deliveries of fuel and raw materials will continue to Eastern Europe but will decline in magnitude. Trade surpluses are likely to increase, however, particularly with Poland.
- Cuba's massive dependence on Moscow is likely to continue because of its bleak economic prospects and the large political dividends that the USSR perceives in the relationship.

- Aid to Vietnam could grow substantially because of the country's poor economic prospects and slim chances for attracting other benefactors.

While the costs to the USSR of supporting client states probably will not continue to increase as fast as in the last five years, the impact of these costs on the Soviet economy may grow substantially. Soviet exports of fuels and raw materials are becoming increasingly costly in terms of labor and investment. Moreover, as growing economic problems in East European countries make it harder for them to reciprocate with increased exports of machinery and consumer goods, the Soviets will have to substitute domestic production for such imports at great cost to themselves.

The above information is Unclassified.

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Introduction

This paper summarizes recent research on Moscow's support for its Communist allies—Eastern Europe, Cuba, Vietnam, Mongolia, North Korea, and Afghanistan—in order to approximate the total economic burden of the Soviet “empire.”¹ Also, trends that might affect the magnitude and Soviet perception of these costs in the future are examined.

The costs calculated in this paper include military aid, (excluding the cost of supporting Soviet troops on foreign soil), conventional economic aid—development and commodity assistance—credits extended to cover trade imbalances, and the opportunity costs involved in charging “bargain prices” for exports and paying “premium prices” for imports. As measured, these costs roughly represent the value in US dollars of the additional Western goods the USSR could have imported if the costs had not been incurred. We have made no attempt to deflate these costs to take into account the escalation in world prices of the goods that the USSR might have purchased.

Neither do we address the domestic impact of these costs in any detail—for example, the effects of (a) using the hard currency foregone by exporting raw materials to Eastern Europe to purchase Western equipment or (b) employing at home the resources that have been delivered to client states.

The appendix describes the methodology used to obtain the costs by country or region and by type of assistance. A new and controversial methodology is used to estimate the implicit subsidies extended to Eastern Europe. More conventional methods are used to estimate the remaining costs. Because available information is poor in many cases, surrogate measures were adopted: trade surpluses, for example, were used as a rough estimate of economic assistance to several countries. Although the final estimates must be consid-

¹ The benefits and costs of Soviet relations with LDCs will be examined in a subsequent paper.

ered “ball park” numbers, they allow a fairly good assessment of the burden on the USSR of maintaining its influence over other Communist states.

The Economic Costs

Moscow's economic costs to support the economies of other Communist countries have become heavy on recent years.² They were \$1.7 billion in 1971 but grew to \$6.6 billion in 1975 and an astounding \$23.0 billion in 1980 (see figure 1). The latter amount is equivalent to 1.5 percent of Soviet GNP in 1980. By way of comparison, total defense expenditures in 1980 accounted for 12 to 14 percent of GNP.

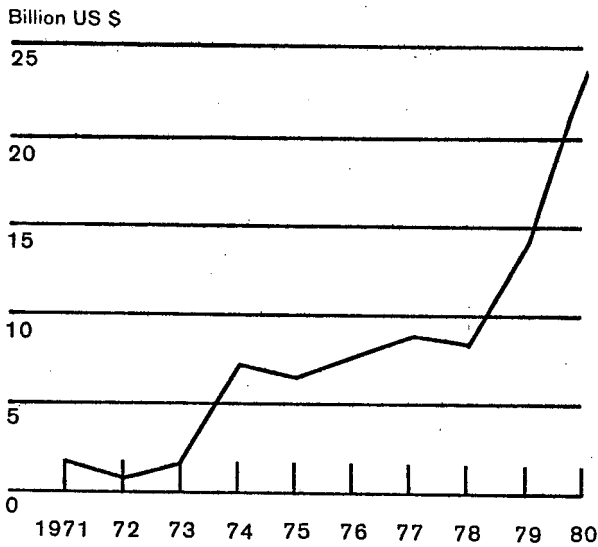
Eastern Europe represents the heaviest burden by far and is largely responsible for the phenomenal growth in support costs (table 1). This region constituted only 21 percent of the total burden in 1971, but its share rose to 71 percent in 1975 and 78 percent in 1980. Cuba was a distant second for the entire period, and aid to Vietnam represented about one-third of the cost of helping Cuba. These three clients represented 92 percent of Soviet aid to client states for the whole period.

Eastern Europe. The Soviets incur two major types of economic costs in support of Eastern Europe (table 2):

- Implicit subsidies, arising largely from Soviet exports of primary commodities (mainly oil) at prices below world market prices.
- Trade surpluses since the mid-1970s—in effect, trade credits.

² We include Eastern Europe (Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania), Cuba, Vietnam, Mongolia, North Korea, and Afghanistan. North Korea and Afghanistan should be considered as somewhat separate cases. North Korea is independent of Moscow politically and cannot be placed in the true client state category. Afghanistan is included in the Communist camp.

Figure 1
USSR: Total Cost of Aid to Communist Countries



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Subsidies by the USSR to Eastern Europe result partly from the intra-CEMA trade price system, which underwent some revision in the 1970s.³ During 1971-75, intra-CEMA trade prices were guided by averages of so-called world prices in the 1965-69 period. Because of the enormous rise in oil prices during 1973-74 in the non-Communist world, price relationships in intra-CEMA trade lagged far behind their world price base. Oil exports became the USSR's largest hard currency earner while oil sold to Eastern Europe—which obtains most of the oil it consumes from the USSR—represented foregone earnings of hard currency. The Soviets therefore pressed for a revision in the CEMA trade price formula in early 1975, and beginning in 1976 CEMA trade prices were to be changed each year and based on average world prices of the preceding five years. [redacted]

The value of net Soviet deliveries of fuels and raw materials to Eastern Europe is nominally balanced (at

³ The CEMA membership includes the USSR, Eastern Europe, Cuba, Mongolia, and Vietnam. [redacted]

official exchange rates) by net East European exports to the USSR of manufactured goods. Compared with world market values of similar commodities, however, the opportunity cost to the USSR resulting from highly concessionary fuel prices is compounded by the generous prices the Soviets pay for East European manufacturers. The net subsidy is thus a result of price distortions which generally favor the East Europeans in both export and import trade. When trade flows are denominated at world market prices instead of the ruble prices, implicit subsidies, considered non-repayable, are estimated to have grown from less than \$400 million in 1971 to \$4.2 billion in 1975 and an enormous \$16.5 billion in 1980. [redacted]

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Although bilateral trade within CEMA is supposed to be in balance, the Soviets have run trade surpluses with Eastern Europe in every year since the mid-1970s. Moreover, the amount of the surplus climbed from \$101 million in 1974 to \$1.6 billion in 1980.⁴ The 1975 revision in the intra-CEMA trade price formula sharply improved Soviet terms of trade with Eastern Europe. To soften the resulting shock to the East European economies, the USSR allowed the surpluses to mount—in effect, extending assistance in the form of trade credits. Although these indirect credits may be considered repayable, Eastern Europe is unlikely to be in a position to repay them any time soon. [redacted]

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Cuba. The Cuban-Soviet economic relationship was initiated in response to the United States' embargo in the first years of Castro's rule. Since then it has been formalized and expanded with the signing of over 100 bilateral economic agreements and trade protocols. Soviet economic and military support of Cuba represents the largest burden outside of Eastern Europe. Over the last 10 years total economic and military assistance has amounted to \$17.4 billion, including a record \$3.3 billion in 1979 (table 3). These costs have almost tripled since 1975, largely because of the growing cost of the subsidies—artificially high Soviet prices

⁴ See appendix for a summary of the methodology used to obtain the implicit subsidies as well as the other cost calculations. [redacted]

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⁵ All of the accumulated surpluses may not represent trade credits. Part could be offset by deficits on unreported invisibles transactions or debt repayments; in 1972 and 1973 the USSR was substantially in the red in its trade with Eastern Europe. Given the large size of the surpluses and the long period over which they extended, however, by far the larger part may be considered trade credits. [redacted]

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Table 1

Million US \$

USSR: Economic Costs of Supporting Communist Countries

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	1,737	976	1,705	7,349	6,593	7,806	8,955	8,490	13,562	23,043
By area										
Eastern Europe	358	-746	174	5,384	4,678	5,124	5,723	3,874	7,490	18,050
Cuba	607	701	652	754	1,122	1,725	2,051	3,252	3,335	3,228
Vietnam ^a	386	637	428	789	313	352	344	449	1,644	1,106
North Korea	254	190	156	101	92	64	84	22	133	NA
Mongolia	105	165	223	244	348	468	613	714	672	493
Afghanistan ^b	27	29	72	77	40	73	140	179	288	166
By type of cost										
Trade subsidies	443	-61	918	5,711	5,128	5,780	6,314	6,367	9,268	18,906
Export surpluses ^c	-29	-685	-594	101	472	714	1,190	146	899	1,569
Economic aid	897	1,027	925	832	746	955	1,140	1,429	1,763	1,602
Military aid	426	695	456	705	247	357	311	548	1,632	966

^a Includes military equipment deliveries to Laos and Kampuchea.^b Afghanistan is included because it is clearly a client state at the moment.^c Eastern Europe only.

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Table 2

Million US \$

USSR: Economic Assistance to Eastern Europe

	1971	1972	1973	1974	1975	1976	1977	1978	1979 ^a	1980 ^a
Total	358	-746	174	5,384	4,678	5,124	5,723	3,874	7,490	18,050
Implicit subsidies	387	-61	768	5,283	4,206	4,410	4,533	3,728	6,591	16,481
Trade surpluses	-29	-685	-594	101	472	714	1,190	146	899	1,569

^a Estimated from preliminary data.

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Table 3

Million US \$

USSR: Economic and Military Assistance to Cuba

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	607	701	652	754	1,122	1,725	2,051	3,252	3,335	3,228
Economic aid	509	632	437	289	150	150	210	330	440	570
Trade and development	427	535	404	255	115	115	175	295	405	535
Interest charges	57	69	0	0	0	0	0	0	0	0
Other invisibles	25	28	33	34	35	35	35	35	35	35
Subsidies	56	0	150	407	901	1,357	1,772	2,638	2,667	2,425
Sugar	56	0	97	NEGL	580	977	1,428	2,435	2,287	1,035
Petroleum	0	0	0	369	290	362	328	165	365	1,390
Nickel	0	0	53	38	81	18	16	38	15	0
Military equipment deliveries	42	69	65	58	71	218	69	284	228	233

[Redacted]

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for Cuban sugar and nickel exports to the USSR and artificially low Soviet prices for Cuban petroleum imports from the USSR. While these subsidies constituted about 50 percent of total aid in 1974, they rose to 80 percent by 1980. Military aid also increased substantially since 1976 because of force modernization and Cuban military activity in Africa [Redacted]

Vietnam. During 1971-75, the USSR and China contributed almost equal amounts of economic assistance to Vietnam while Moscow was the major supplier of military aid. Soviet economic aid was largely project oriented, including the construction of dams, flour mills, and the like. With the war's end, Moscow's influence increased relative to China's. In 1975 the Soviets signed an agreement with Hanoi for economic and technical assistance, and offered substantial credits to cover commodity aid. [Redacted]

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The hard currency costs of the Cuban relationship have also risen significantly since the mid-1970s.⁶ During 1960-73 these costs amounted to \$1.5 billion, or only about \$100 million annually. World oil prices were low, and the USSR re-exported Cuban sugar for hard currency after refining in the USSR. Since 1974, however, rising world oil and grain prices and the resumption of Soviet hard currency purchases of Cuban sugar have driven the hard currency costs to an estimated \$5.4 billion, or \$1.1 billion annually. The foregone hard currency is equivalent to about 11 percent of Soviet hard currency exports and about 8.5 percent of total Soviet hard currency earnings. [Redacted]

The rise in Soviet aid toward the end of the decade (table 4) reflected these new agreements as well as other factors that increased pressures for more Soviet assistance—Vietnam's break with China in 1978, the small amounts of investment and aid flows from non-Communist countries, the abysmal performance of the five-year development program, and Hanoi's adventurism in Kampuchea. The Soviets promised \$2.5 billion for the 1976-80 plan—mostly dedicated to project aid. Soviet commodity aid reportedly included grain, oil, and steel. Vietnam joined CEMA in 1978 and, according to Soviet officials, CEMA (largely the USSR) took over the abandoned Chinese projects and began to provide preferential prices for Vietnam's major export products. [Redacted]

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⁶ These include estimated Soviet payments in hard currency for imports from Cuba and for Western goods for delivery to Cuba, as well as the earnings foregone by deliveries to Cuba of goods that could have been sold elsewhere [Redacted]

Table 4

Million US \$

USSR: Economic and Military Assistance to Indochina

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	386	637	428	789	313	352	344	449	1,644	1,106
Economic aid ^a	196	157	218	271	229	305	291	335	572	417
Trade surplus ^b	131	87	143	196	154	225	196	225	457	297
Economic grants ^c	50	50	50	50	50	50	50	50	50	50
Technical services ^d	15	20	25	25	25	30	45	60	65	70
Military equipment deliveries	190	480	210	518	84	47	53	114	1,072	689
Vietnam	190	480	210	120	73	32	12	91	1,058	606
Laos and Kampuchea	0	0	0	398	11	15	41	23	14	83

^a Including economic aid to Vietnam only. No trade subsidies have been calculated.

^b From the Soviet foreign trade handbook; used as a rough estimate of economic aid, excluding grants and services.

^c Based on proportion of grants in reported commitments.

^d Minimum estimated value of Soviet technicians in Vietnam and training of Vietnamese in the USSR.

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Soviet economic assistance to Kampuchea and Laos should also be included, but the amounts of this aid are not known. While much is channeled through Vietnam, Moscow is providing an increasing amount directly to Vientiane and Phnom Penh. The USSR and Laos signed an economic agreement in September 1980 to expand trade two and a half times over the next five years and to extend economic aid equivalent to \$600 million. A Soviet-Kampuchean aid agreement is reportedly under negotiation [redacted]

North Korea. After improving in the late 1960s, relations between North Korea and the Soviet Union began to cool in the 1970s. Decreased supplies of military and economic assistance were both a cause and result of the disaffection (table 5). In the midst of default on large Western loans during 1974-76, North Korea looked to the USSR for debt relief and to fill the void caused by the withdrawal of Western firms for industrial projects. The Soviets responded with a lackluster offer of increased trade and a few new projects while rejecting the request for hard currency and refusing to guarantee overdue Western loans or backstop new

ones. As a result, Pyongyang diverted to the West exports that were pledged to the USSR. After Moscow suspended oil deliveries in retaliation, North Korea registered export surpluses in its trade with the Soviet Union in 1978 and 1979, compared with chronic deficits in earlier years. In the near future, economic aid probably will remain low. Military aid now includes only low-grade military end items and spare parts; deliveries of weapons systems and advanced military technology stopped in 1973. The low level of military assistance is also expected to continue [redacted]

Mongolia. Since 1960, Mongolia has relied almost completely on Soviet equipment, manpower, and capital for its economic development and defense. The relationship has been cemented with numerous treaties as well as membership in CEMA. By 1978 the industrial enterprises constructed with Soviet aid contributed more than 40 percent of Mongolia's total industrial output. During the 1976-80 plan Moscow was committed to provide assistance for more than 240

Table 5

Million US \$

USSR: Economic and Military Aid to North Korea

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	254	190	156	101	92	64	84	22	133	NA
Economic aid	78	68	53	51	43	26	12	10	20	NA
Military equipment deliveries	176	122	103	50	49	38	72	12	113	NA

projects, including a new fuel and power complex and agricultural projects dealing with irrigation systems, land cultivation, and animal husbandry. [redacted]

The exact size of the Soviet assistance program is not known. A measure of the net flow of assistance, which does not include technical assistance and other intangibles, is reflected in the Soviet trade surplus with Mongolia (table 6). Since 1970, the accumulated surplus has reached \$3.8 billion, peaking at \$660 million in 1978. An additional but small cost to the Soviets has been the subsidy resulting from the preferential prices charged for petroleum and refined product exports to Mongolia. [redacted]

Afghanistan. The USSR's invasion of Afghanistan in December 1979 was the culmination of 25 years of growing Soviet economic and military penetration of this border state. Moscow became Afghanistan's largest source of economic and military assistance, an important influence on cultural and educational programs, and its principal trading partner. [redacted]

Soviet economic aid—which was provided on more generous terms than those allowed any other LDC—gave the Kremlin a dominant role in Afghan economic development (table 7). Over the past 25 years, Soviet aid provided about one-half of Kabul's import requirements for projects included in its first four economic development plans. Moscow claims that Soviet-aided plants accounted for one-fourth of Afghanistan's industrial output in 1976-77. Moscow's position as Afghanistan's largest aid donor also made it the principal trading partner. Since the late 1960s,

Afghan gas exports have brought balance to the civilian trade account in most years. After the invasion, Moscow promised additional aid in the form of emergency commodity and food grants and a boost in Soviet payments for Afghan natural gas. [redacted]

The USSR is Afghanistan's sole source of arms except for a minor amount from Czechoslovakia. Poor leadership and troop training, the lack of trained operational and maintenance personnel, and Afghanistan's inadequate transportation and communications systems required Soviet advisory training and maintenance services. Before the 1979 intervention, the 4,000 Soviet technicians in Afghanistan had infiltrated the Army and Air Force at every level of command. While the advisory team was kept at the 1979 level, the overall Soviet troop commitment rose from 50,000 to 115,000 in 1980—85,000 in Afghanistan and about 30,000 direct support personnel in the USSR. [redacted]

The Costs by Type

The cost to the USSR of supporting its Communist allies may also be arranged by type primarily to determine how much can be considered repayable (figure 2). The costs fall into four categories:

- Trade subsidies—the “premium prices” paid for imports, such as sugar from Cuba, or the “bargain prices” charged for exports, such as petroleum to Eastern Europe.
- Export surpluses—the assistance extended to Eastern Europe as trade credits.
- Conventional economic aid—project and commodity assistance.
- Military aid. [redacted]

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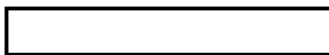
Table 6

Million US \$

USSR: Economic and Military Aid to Mongolia

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	105	165	223	244	348	468	613	714	672	493
Trade surplus ^a	102	161	220	219	319	446	577	660	638	469
Implicit subsidies	0	0	0	21	21	13	9	1	10	NA
Military equipment deliveries	3	4	3	4	8	9	27	53	24	24

^a From the Soviet foreign trade handbook—used as a rough estimate of economic aid. Technical services and other intangibles are not included.



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Table 7

Million US \$

USSR: Economic and Military Aid to Afghanistan

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	27	29	72	77	40	73	140	179	288	166
Economic aid	12	9	-3	2	5	28	50	94	93	146
Trade surplus ^a	12	9	-3	2	5	28	50	94	68	-9
Economic grants	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL	NEGL	25	155
Military aid	15	20	75	75	35	45	90	85	195	20

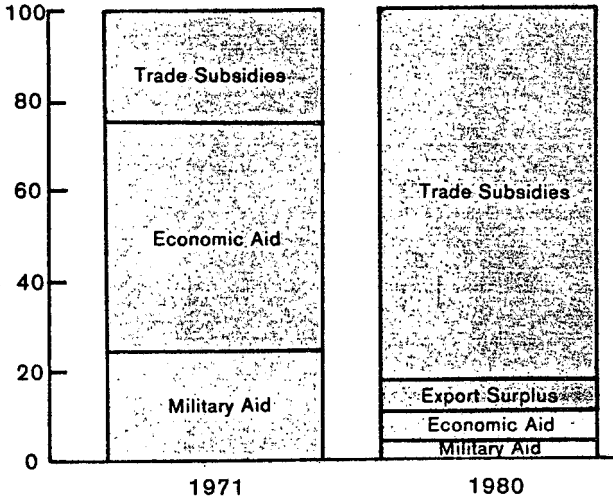
^a From the Soviet foreign trade handbook—used as a rough estimate of economic aid, excluding grants and services.



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Figure 2
USSR: Costs of Aid to Communist Countries

By Type of Cost
Percent



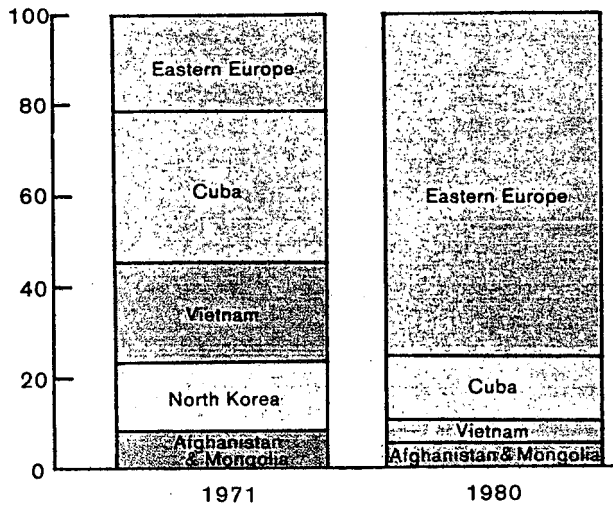
The largest costs are the trade subsidies, Eastern Europe being the main beneficiary. At the beginning of the 1970s these costs were small—about \$450 million in 1971. They rose rapidly in 1973-74 when world oil prices began to skyrocket, and in 1975 topped \$5 billion. The latest OPEC price increases boosted them to an alltime high of almost \$19 billion in 1980. These subsidies are actually opportunity costs, that is, they represent earnings that the Soviets could have reaped had they sold their exports at higher prices in the West, or money that they could have saved had they been able to purchase imports at lower prices outside the Bloc. As such, they are not repayable.

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Soviet trade surpluses became substantial after 1975, reaching a record \$1.6 billion in 1980. Theoretically repayable, prompt repayment is unlikely because the continuing weakness of the East European economies will make repayment exceedingly difficult. Conventional economic aid—commodity and development assistance—to the Communist countries excluding Eastern Europe has averaged about \$1.1 billion a year over the last ten years.⁷ These costs actually declined during the first half of the 1970s but then rose again after 1975. Much of this aid is in the form of loans rather than grants, and the Soviets can expect some repayment. Military aid—largely grants—fluctuated widely during 1971-80, mainly reflecting the uneven assistance extended to Vietnam.⁸ The record was \$1.6 billion in 1979.

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By Country
Percent



Outlook

The absolute cost of supporting Moscow's Communist allies will remain high during the first half of the 1980s but probably will level off somewhat. The bill for subsidies is likely to decline but may be offset by an increase in other forms of aid.

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⁷ Eastern Europe probably gives more development aid to the USSR than vice versa. The capital equipment transferred is reflected in the trade accounts, but the transfer of labor should be considered a small deduction from the other costs of supporting Eastern Europe.

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⁸ The net transfer of military equipment between Eastern Europe and the USSR is implicit in the methodology used to derive the estimates of subsidies for Eastern Europe because it measures all trade flows. Such transfers can be considered normal commercial transactions since military equipment is sold at competitive prices with no credit involved. Also, the costs of maintaining Soviet troops on foreign soil are not considered a transfer to the host country.

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The Soviets must continue to support Eastern Europe; to do otherwise would risk political as well as economic instability. We expect subsidized deliveries of fuel and raw materials to continue, but to decline in magnitude. The Soviets cannot continue to accede to Eastern Europe's requests for more oil because of slowing Soviet oil output as well as rising domestic demand in the USSR and a need to continue sales to the West. We estimate that in the first half of the 1980s, total energy exports from the USSR to Eastern Europe will rise slowly with oil exports remaining about the same, but both will fall in the late 1980s. A slower rise in world oil prices, predicted by some experts, would substantially narrow the gap between world market prices and the prices that the Soviets charge Eastern Europe, thereby decreasing the subsidies. Further revision of the intra-CEMA price formula would also narrow this gap. The Soviets reportedly are pressing for a price scheme with a three-year rather than a five-year moving average that would raise oil prices for Eastern Europe by 20 to 30 percent over the next few years. Moscow must realize, however, the dangers of piling additional financial obligations on these countries. [redacted]

Although the subsidies may have peaked, the trade surpluses run recently with Eastern Europe are likely to increase, particularly with Poland. The declining growth of the East European economies will make it harder to pay for increased aid transfers. In addition, the East European governments apparently do not believe that they can afford the ambitious military force modernization programs that Moscow is pushing in Warsaw Pact channels. The USSR will probably have to pick up an increasing share of the tab if it wants modernization to go forward. Moscow's willingness to absorb this cost will depend ultimately on its judgments about the relationship between continued East European dependence, the internal stability of these regimes, and their ties with the West. For example, a hard-nosed Soviet policy that would ease Moscow's burden through higher CEMA oil prices would increase the export burden on Eastern Europe, thereby impairing these countries' capacity to trade with the West and also frustrating their ability to make improvements in consumer welfare [redacted]

Moscow's economic commitment to Cuba is now more crucial than ever. The bleak long-term prospects for the Cuban economy in conjunction with potentially

large political dividends from Moscow's relationship with Cuba argue for continued large-scale and probably increased Soviet support. Indeed, Moscow and Havana have just signed a series of agreements that provide additional Soviet trade credits and price subsidies for the 1981-85 Five-Year Plan. There is a good chance, however, that the cost of the oil subsidies will not increase as in the past because of revisions in Soviet pricing policies [redacted] 25X1

The Vietnam burden has the greatest potential for substantial growth. Vietnam's poor economic prospects and its penchant for alienating allies and Free World supporters alike argue for a possible massive increase in Soviet assistance. Hanoi's needs will be large in the economic area, particularly in poor harvest years, as well as in the military area to support its adventurism in neighboring states. Moscow has been reluctant to accede to Hanoi's petitions for economic aid in the recent past but is likely to provide at least the amounts necessary to keep the economy afloat. Military aid probably will rise as long as Soviet and Vietnamese objectives coincide. Support for Laos and Kampuchea can also be expected to grow appreciably although Vietnam is increasingly wary of a strong Soviet presence as a threat to its own dominance. [redacted] 25X1

The real burden of empire—that is, the drain on Soviet domestic resources—almost certainly will be heavier. Exports by the USSR of fuels and raw materials are becoming increasingly costly in terms of labor and investment because the costs of extraction and transportation are rising steeply. Moreover, to the extent that Eastern Europe's growing economic problems make it harder for them to reciprocate with increased exports of machinery and consumer goods, the Soviets will have to substitute domestic production for these imports at great cost. Their machine-building capacity is already stretched to the limits because of steel shortages and military requirements and their consumer goods industry even now cannot keep up with rising consumer demand [redacted] 25X1

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