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Trends in Soviet Commercial Relations With the Third World

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A Research Paper

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Trends in Soviet Commercial Relations With the Third World [redacted] 25X1

A Research Paper

This paper was prepared by [redacted] Office of Soviet Analysis, with contributions by [redacted], SOVA, and [redacted] Office of Global Issues. [redacted] 25X1 25X1 25X1 25X1

Comments and queries are welcome and may be directed to the Chief, Soviet Economy Division, SOVA, on [redacted] 25X1

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Trends in Soviet Commercial Relations With the Third World [redacted]

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Summary

Information available as of 1 September 1984 was used in this report.

The USSR's economic relations with the Third World have been highly profitable for Moscow, providing an inflow of resources and hard currency as well as political and strategic advantages that more than compensates for the costs incurred. While Soviet trade with the less developed countries (LDCs) has grown rapidly since 1970, it constitutes less than 15 percent of the USSR's global exports and imports. It remains narrowly focused on a few commodities and a few countries—mainly those in the strategically important area from India to Syria, plus Argentina and Brazil, major suppliers of farm products. [redacted] 25X1

Unlike Soviet trade with the developed West, which is essentially an exchange of Soviet industrial raw materials for technology and agricultural products, Soviet-LDC trade consists of an exchange of Soviet manufactures—mainly military supplies—for industrial and agricultural raw materials. The LDCs represent Moscow's only major outlet outside the Bloc for exports of civilian and military manufactures. [redacted] 25X1

Soviet military exports are the largest and most dynamic element in the trade. Using trade data provided by the USSR, we estimate that such exports have totaled over $9 billion in each of the last two years, an amount equal to almost 70 percent of total Soviet exports to the LDCs. The military sales program offers Moscow substantial benefits:

- It is a major tool for establishing a Soviet presence and expanding influence in the LDCs.
- It provides Moscow with one of the few export opportunities in which Soviet-manufactured goods are somewhat competitive in price and quality with Western products.
- After credits and payments reschedulings are netted out, it generates perhaps $5-6 billion per year in hard currency revenues or their equivalent. [redacted] 25X1

Even Moscow's modest economic assistance program appears to have been largely self-sustaining. We judge that in recent years repayment of principal and interest on earlier credits has for the most part offset—and in some years may have even exceeded—new drawings. Furthermore, this program opens up markets for Soviet equipment in the Third World. [redacted] 25X1

Although the USSR expects cash payments from its richest customers, especially for arms sales, it uses favorable credit terms (low interest rates and long repayment periods) to break into new markets and to retain some old ones. Moscow also has been flexible when necessary, accepting payment in commodities such as oil or, when no other alternative is available, agreeing to a debt rescheduling. [redacted] 25X1

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Moscow structures its imports from the LDCs to reflect its domestic requirements:

- Agricultural purchases, which account for more than 50 percent of total imports from the LDCs, offset harvest shortfalls and improve the quality of domestic consumption.
- Oil imports, which Moscow has been increasing as partial payment for arms sales, are reexported to third countries, increasing Moscow's capability to market more oil for hard currency while meeting the oil needs of its Communist clients and its domestic economy.
- Natural gas imports similarly allow a marginally more efficient allocation of domestic supplies within the USSR. 25X1

The balance of costs and benefits to Moscow from its trade with the LDCs ultimately is represented by the resource flows involved and the claims on resources that may result from the current account surpluses that the USSR records in this trade. Moscow's cost is the resources embodied in exports to the LDCs. The opportunity cost of these exports has risen as the growth of Soviet machine-building capacity has lagged behind the increases in requirements for investment goods, consumer durables, and military hardware. Increased competition in the world arms market has also raised this cost by forcing Moscow to offer the LDCs increasingly sophisticated equipment. This contrasts with Soviet sales policy through the early 1970s when exports consisted largely of equipment being retired from Soviet military forces. The resource inflow of Soviet imports only partially compensates for the resource outflow. 25X1

The burden on the USSR of accumulating surpluses depends on LDCs' ability to cover the surpluses with payments of hard currency and the character of the LDCs' accumulating debt to the USSR. Much of the surplus has in fact been covered by the LDCs in hard currency. These earnings permit Moscow to purchase technologically advanced machinery and equipment from the developed West, where the USSR traditionally runs a trade deficit. Most of the remainder of the surplus is covered by net additions to debt owed to the USSR—over $1 billion annually since the mid-1970s. This stock of debt, which was valued at $18 billion at the end of 1982, will potentially generate future income to the USSR either in guaranteed deliveries of commodities important to the Soviet economy or in cash. A sizable portion (perhaps as much as 50 percent) of the $14 billion in outstanding military debt, however, is owed by countries that may well be unable to make scheduled payments such as Ethiopia, South Yemen, and Mozambique. The USSR has already rescheduled the debt owed by

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many of these countries, thus increasing the cost of extending credits. Even without rescheduling, interest earnings for Moscow, at rates of 2 to 4 percent, are probably not sufficient to totally compensate for deferring payments on its resource transfers to the LDCs. 25X1

Moscow's economic ties—especially military trade and aid—have been an important element in increasing Soviet influence in the LDCs. Much of this influence has come from supporting regimes with anti-Western, anti-US stances such as Syria, Libya, Ethiopia, and Nicaragua. To the extent that the policies adopted by these countries weaken Western influence, Moscow benefits. In addition, numerous less developed countries have become dependent on Soviet arms supplies, and this serves to increase Soviet leverage. Such dependence plays a part in those countries' pro-Soviet voting patterns in international organizations and the lack of media attention within those countries to such events as the invasion of Afghanistan and the downing of the Korean airliner. Most LDC leaders, however, are keenly conscious of the need to protect their national sovereignty, and, when their interests diverge from Soviet interests, Moscow usually has little influence. 25X1

The most tangible noneconomic benefits to Moscow from economic ties with the LDCs are military. Soviet assistance to LDCs—especially military assistance—has helped secure access to a number of military facilities. These port and air facilities are used in peacetime primarily by Soviet naval ships and aircraft and by the military transport planes and merchant ships that deliver military equipment and supplies to client states. 25X1

The character of the USSR's economic ties with the non-Communist less developed countries for the remainder of the 1980s is likely to continue along the same lines as during the past decade. The Soviet military trade and aid program will remain the key to Soviet relations with the Third World. Moscow is likely to remain flexible with regard to financial arrangements on military sales but will continue to insist on the most favorable terms feasible. In addition, the USSR will probably continue to provide increasingly sophisticated equipment to important arms customers such as Syria, India, Iraq, and Libya to maintain these markets. 25X1

Economic assistance extended on concessionary terms, in our judgment, may not increase much if at all beyond current levels. The current problems hampering the growth of the Soviet economy make the leadership reluctant to increase its assistance to the LDCs. In his plenum speech in

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June 1983, former General Secretary Yuriy Andropov made specific reference to the limits of Soviet assistance. Several Soviet clients, including Angola and Nicaragua, have been advised to seek out Western donors for the economic assistance requested from Moscow. We believe that the USSR will continue to favor extending economic aid on concessionary terms for those projects that will be the most beneficial to the Soviet economy, primarily by guaranteeing long-term delivery of raw materials. Commodity credits, grants, and cash loans will probably remain small and continue to be limited mainly to important client states. [redacted] 25X1

The USSR's ability to expand its economic ties with the LDCs and to increase its influence through this relationship, in our judgment, will be hindered by a number of factors. LDC disenchantment with Soviet economic assistance increased during the 1970s and is likely to continue throughout the 1980s. LDC recipients of Soviet assistance have criticized Moscow for the paucity of its assistance, poor quality of equipment and workmanship, and slow implementation of economic aid agreements. Countries such as Guinea, Benin, and Congo, once close to the USSR, have become disillusioned with Moscow's assistance programs and are strengthening their Western ties. Even the regimes of Angola and Mozambique, which owe their very existence to Soviet support in the mid-1970s, are disappointed in Soviet economic assistance and are seeking help in the West. [redacted] 25X1

In addition, the generally poor quality of Soviet-manufactured goods constrains the array of civilian machinery and equipment salable to the LDCs to those few products that Moscow has already been marketing for some time. Only the USSR's exports of power equipment are likely to show continued growth during the decade. Increased Western competition and LDC financial problems may even hamper further increases in Moscow's military sales. [redacted] 25X1

We believe, therefore, that real growth in Soviet trade with the LDCs for the rest of the 1980s will be slow at best and could be stagnant. In our judgment, Soviet economic relations with these countries will nevertheless remain profitable politically, economically, and militarily for Moscow, and no retrenchment of the Soviet position in the LDCs is anticipated. [redacted] 25X1

Contents

25X1

Figures

Tables

25X1

25X1

Trends in Soviet Commercial Relations With the Third World

Introduction

The Soviets structure their activities in the Third World with a keen eye on economic, political, and strategic benefits. Moscow's ties with the less developed countries have become an economic plus for the USSR by generating sizable export earnings—primarily from military sales. This assessment examines the structure and magnitude of Soviet economic relations with the LDCs, presents an accounting of the costs and benefits of Soviet military and economic assistance programs, and assesses the outlook for Soviet economic relations with the LDCs during the balance of the 1980s.[1]

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Structure of Trade

Trade Trends

Soviet trade with non-Communist LDCs has expanded rapidly since 1970, paralleling the growth of the USSR's global trade. Between 1970 and 1983, the value of Soviet trade with the LDCs increased from $3.2 billion to $23.5 billion. In spite of the more than sixfold increase in trade turnover, however, the LDC share in total Soviet trade has remained relatively constant (see figure 1). Exports to and imports from the LDCs accounted for 15 percent and 12 percent of total Soviet exports and imports, respectively, in 1983; the comparable shares in 1970 were 15 percent and 11 percent.

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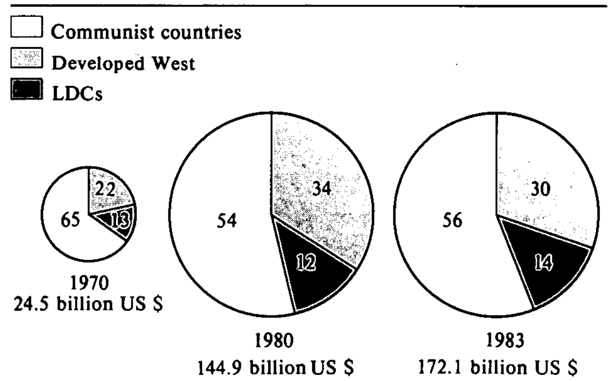
Figure 1
USSR: Shares of Trade Turnover, 1970, 1980, and 1983



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In contrast, the share of Soviet trade with the developed West increased sharply during the same period. The West's share of total Soviet exports rose from 19 percent to 30 percent, and its share of total imports rose from 24 percent to 34 percent. These trends reflect: (1) the priority Moscow attached to boosting imports of Western technology and equipment in the early and mid-1970s; (2) the need for large grain imports in 1979-83; and (3) the sharp rise in the price of oil shipped to the West. Growth in the share of Soviet trade with the West has been at the expense of trade with Communist countries—especially Eastern Europe—rather than with LDCs.

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Growth in Soviet-LDC trade has been quite respectable even when examined in volume rather than value terms (see figures 2 and 3). In fact, according to a recent Western study, growth in the volume of this trade has outpaced the growth in Soviet trade with both the Communist countries and the developed West. The study estimates that the volume of exports

[1] This paper is limited to those transactions directly tied to Soviet trade-related activities in the less developed countries. It excludes such activities as the operation of Soviet-owned companies in the LDCs and tourism. Throughout this assessment the OECD definition of less developed countries is used to encompass: (1) all countries in Africa except the Republic of South Africa; (2) all countries in East Asia except Hong Kong, Japan, Laos, Vietnam, and Cambodia; (3) all countries in Latin America except Cuba; (4) all countries in the Middle East and South Asia except Israel and Turkey. The terms *less developed countries, the Third World,* and *developing countries* are used interchangeably.

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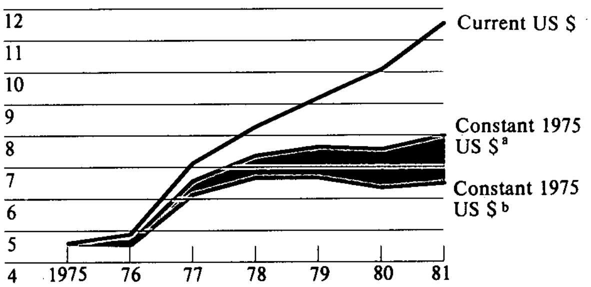
Figure 2
USSR: Trends in Exports to the LDCs, 1975-81

Billion US $



[a] Assumes 4.5-percent annual growth in prices of Soviet machinery exports and the residuals.
[b] Assumes 9-percent annual growth in prices of Soviet machinery exports and the residuals.

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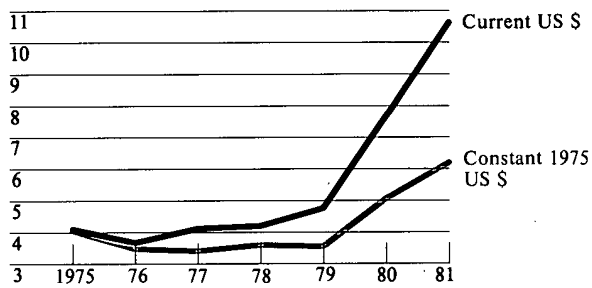
Figure 3
USSR: Trends in Imports From the LDCs, 1975-81

Billion US $



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to the LDCs grew at an average rate of 7 to 10 percent annually between 1975 and 1981, while the volume of total Soviet exports grew at an average annual rate of 5 percent.[2] Thus, the LDCs' share in total Soviet exports probably increased in real terms although their share in nominal exports remained basically unchanged. The more rapid increase in the volume of trade with the LDCs reflects Moscow's growing role as a major arms supplier to these countries. The volume of Soviet imports from the LDCs during this period grew on average about 7 percent per annum. All of the import growth, however, occurred in 1980 and 1981 as agricultural purchases surged; the volume of imports actually declined by about 20 percent between 1975 and 1979. [redacted] 25X1

[2] This estimate assumes that prices of Soviet exports of machinery and equipment, including military equipment exports hidden in unspecified trade with the LDCs, grew at an average annual rate of between 4.5 and 9 percent in 1975-81. The range is bound at the upper end by the average annual rate of growth in prices of Western exports of similar equipment to the LDCs. At the lower end, it is bound by a 4.8-percent average annual increase in overall Soviet machinery and equipment export prices between 1970 and 1980. [redacted] prices grew at an annual average rate of about 8 percent between 1974 and 1978 but at much slower rates before and after that period. [redacted] prices on Soviet machinery and equipment and unspecified exports to non-Communist countries grew at an annual average rate of growth of 5 to 6 percent between 1970 and 1982. From this evidence, it appears that the average real rate of growth of prices for these Soviet exports to the LDCs in 1970-81 was between 4.5 and 9 percent annually. [redacted] 25X1

Trade Partners

Soviet economic relations with the LDCs have traditionally been with countries along the USSR's southern flank—those nations within the strategically important area from India to Syria (see map). In 1983 more than 60 percent of Soviet exports to the LDCs (excluding exports not specified by partner country) went to countries in this region (see table 1). Efforts to increase its political influence and strategic position have also motivated the expansion of Moscow's trading relations in North Africa and selected countries in Sub-Saharan Africa, particularly Ethiopia and Angola, in recent years.[3] [redacted] 25X1

The Soviets, however, are not blind to the economic opportunities presented by trade with resource-rich countries. For example, the USSR is participating in numerous projects in Iraq, Iran, Algeria, Morocco,

[3] Not all of Soviet exports are accounted for by reported exports to individual countries (see inset "Gaps in Soviet Trade Statistics"). This unreported trade is believed to consist of military exports. If all of the USSR's military exports—Moscow's major tool for projecting its influence in the Third World—were included in country trade, the concentration of Soviet trade within these regions would be even greater, since over 90 percent of estimated military exports go to countries in South Asia, the Middle East, and North Africa. [redacted]

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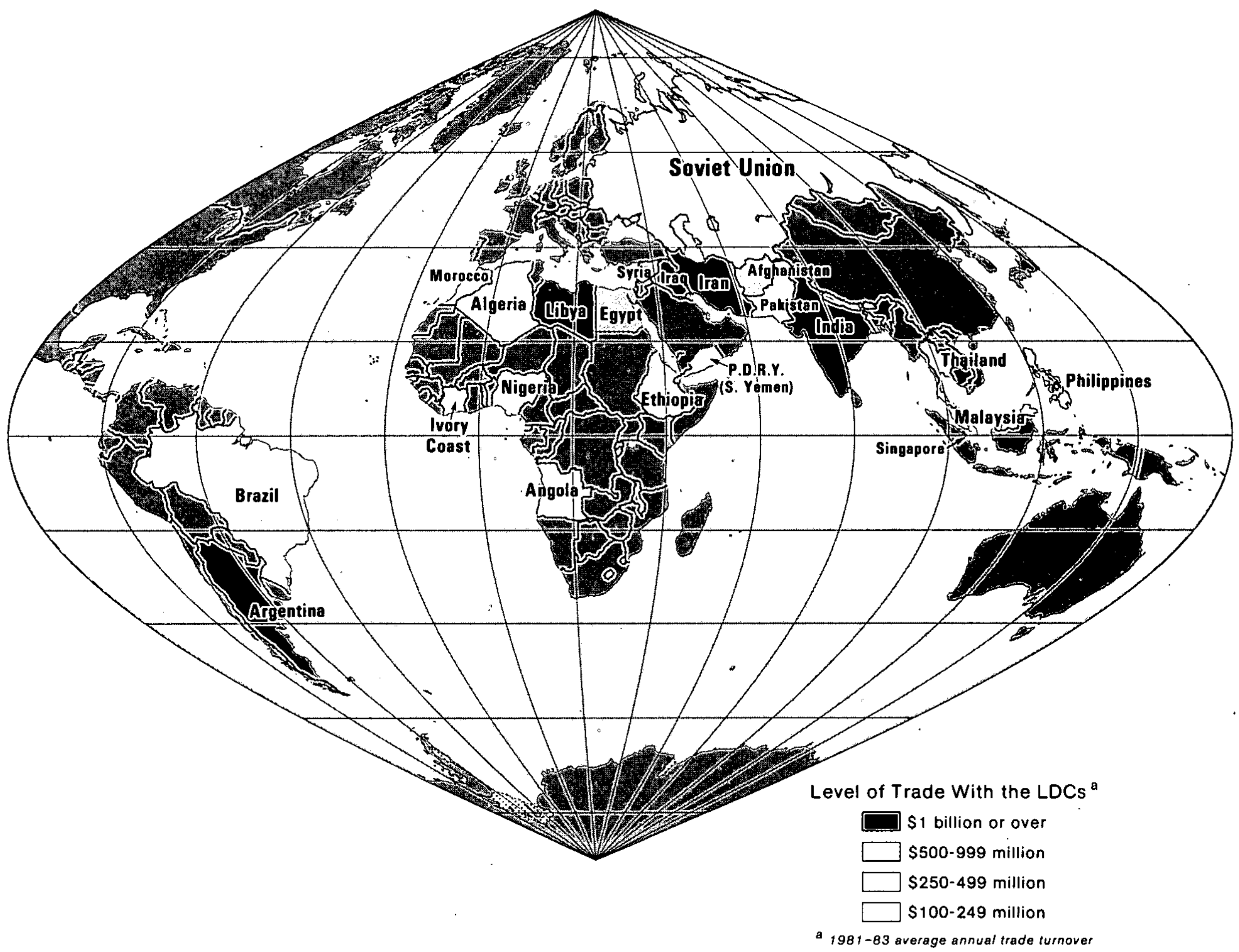
Figure 4
Concentration of Soviet Trade in the LDCs



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and Nigeria that are commercially justifiable. The fact that growth in the volume of exports to OPEC member countries has outstripped overall Soviet export growth to the developing countries since the mid-1970s is a further indication that the USSR has eagerly pursued opportunities to earn hard currency in its trade with the LDCs.

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Finally, Soviet trade with South America and the Far East has also grown rapidly in recent years. In these regions Moscow has focused on lining up imports of farm products to compensate for domestic shortfalls in production. Because this trade is closely tied to Moscow's domestic agricultural requirements, it has tended to fluctuate widely. After reaching a record of $5.3 billion in 1981, total imports from these two regions fell by almost 40 percent in 1982 as a result of reduced purchases of and lower prices for agricultural products. In 1983, imports remained at about the 1982 level.

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Table 1
USSR: Trade With Less Developed Countries, by Region, 1970-83

Million US $

	1970		1975		1980		1981		1982		1983	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	**1,975**	**1,240**	**4,598** [a]	**4,089**	**10,070**	**7,664**	**11,525**	**10,627**	**13,763**	**9,127** [b]	**13,940**	**9,568**
South Asia	**218**	**349**	**677** [a]	**705**	**1,965**	**1,915**	**2,128**	**2,428**	**2,176**	**2,592** [b]	**2,451**	**1,976**
India	136	269	456 [a]	547	1,326	1,353	1,479	1,854	1,435	2,034	1,717	1,419
Afghanistan	40	41	94	89	381	396	471	440	569	384	541	370
Pakistan	36	31	52	33	194	78	106	67	99	97	105	91
Middle East	**360**	**104**	**996**	**880**	**1,702**	**790**	**2,512**	**1,059**	**2,792**	**745**	**1,939**	**1,678**
Iraq	66	5	381	452	729	398	1,259	5	1,347	25	501	516
Iran	186	69	391	317	399	116	569	653	797	260	755	509
Syria	46	19	138	96	258	236	387	350	291	415	277	405
North Africa	**486**	**395**	**615**	**877**	**833**	**1,035**	**955**	**1,181**	**986**	**2,122**	**1,091**	**1,913**
Libya	14	0	26	0	252	443	264	502	305	1,554	357	1,368
Egypt	363	310	364	623	266	325	339	372	302	417	345	482
Morocco	36	20	64	57	143	162	176	187	188	81	164	42
Algeria	69	62	156	187	143	96	157	117	183	64	217	16
Sub-Saharan Africa	**93**	**141**	**186**	**327**	**548**	**553**	**684**	**472**	**835**	**295**	**1,042**	**394**
Nigeria	12	22	34	117	124	30	218	27	366	19	414	92
Ethiopia	1	1	4	3	186	40	189	28	252	18	227	24
Angola	0	0	0	0	106	24	149	11	84	5	230	4
Ghana	11	44	15	64	1	118	NEGL	54	1	51	3	68
Ivory Coast	NEGL	2	18	24	4	188	1	142	1	96	2	67
Latin America	**7**	**79**	**204**	**1,067**	**155**	**2,293**	**150**	**4,212**	**396**	**2,497**	**267**	**2,710**
Argentina	2	31	15	408	47	1,790	43	3,297	38	1,746	35	1,754
Brazil	3	23	130	421	34	389	23	742	248	573	144	797
East Asia	**19**	**157**	**29**	**221**	**104**	**921**	**161**	**1,103**	**154**	**703**	**97**	**620**
Malaysia	2	123	1	141	22	298	21	243	22	324	16	334
Thailand	3	1	6	18	13	253	11	434	12	183	10	74
Philippines	0	0	1	17	13	194	1	218	18	111	8	74
Unspecified	**792**	**15**	**1,891**	**12**	**4,763**	**157**	**4,935**	**172**	**6,424**	**173**	**7,053**	**277**

[a] Adjusted for grain exported to India on credit, which is not reflected in Soviet trade statistics.
[b] Adjusted for repayment of in-kind grain credits by Bangladesh not included in Soviet trade statistics.

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Payments Mechanism

Until the early 1970s most Soviet trade with the less developed countries was conducted in nonconvertible currencies through bilateral clearing accounts—essentially a barter arrangement (see inset on clearing accounts). In 1970 this soft currency trade accounted for 68 percent of total Soviet exports to the LDCs and 72 percent of imports. Since then, however, Moscow has moved steadily away from this soft or barter trade toward settlement in hard currency. The value of hard currency exports since 1970 has grown at an average

Gaps in Soviet Trade Statistics

Official Soviet trade statistics provide the most complete and consistent accounting of Soviet trade with the developing countries. In comparison, LDC reporting on trade with the USSR is often available only after a lag of several years and generally excludes important elements of the trade, such as imports of military equipment and some equipment for economic assistance programs. Soviet statistics include these data, at least in aggregate reporting on trade with the LDCs. They also report imports and exports of commodities (mainly oil) that are purchased and resold to third countries by the USSR but which never enter the USSR. LDC statistics often fail to account for this sort of trade. Finally, both Soviet exports and imports are reported by the USSR on an f.o.b. (free on board) basis, while LDC reporting varies. Almost all LDCs report their exports on an f.o.b. basis, but imports are reported on either an f.o.b. or c.i.f. (cost, insurance, and freight) basis.

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While we believe that Soviet statistics are reasonably accurate, gaps in the disaggregated data limit their usefulness. Perhaps the most important gap is the difference between total reported exports to developing countries and the sum of reported exports to individual LDCs. This residual, which has accounted for about 45 percent of total exports in recent years, is much too large to represent exports to countries that are not listed in Soviet trade statistics and for which there are no indications of sizable, nonmilitary ties with the USSR. The growth in this residual closely matches the growth in CIA estimates of military exports based on observed deliveries. Consequently, we believe this residual consists almost entirely of military exports.

A similar, but much smaller, residual exists for imports. This residual, which has averaged less than $200 million annually in the last few years, probably consists of trade with partners not included in the trade statistics, such as bauxite and alumina from Jamaica and Guyana and sugar from the Dominican Republic. 25X1

In addition, Soviet reported trade with individual countries is not always as complete or as disaggregated as we would like. Besides the overall residual, about 14 percent of Soviet exports to the developing countries in recent years is distributed according to individual country but with no commodity designation. The country distribution of this residual suggests that most of these exports are also military related, with over 90 percent of these unspecified exports going to Moscow's major arms customers. 25X1

Since 1976, certain trade statistics, including the volume of fuels exports and grain imports, have not been reported by the USSR. This reduction of published statistics is most evident in Soviet reporting of imports of fuels and other raw materials from the LDCs. For the most part, these imports are aggregated into a general category that includes fuels, minerals, and metals. Therefore, other knowledge of the composition of Soviet imports from individual countries is needed to define this trade; that is, oil from Libya and Iraq, bauxite from Guinea, and tin from Bolivia, Malaysia, and Singapore. 25X1

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annual rate of almost 30 percent; whereas the growth in soft currency exports has been less than 10 percent. Soviet hard currency imports from the LDCs grew twice as fast as soft currency imports (see figure 5).

Moscow has renegotiated a number of trade agreements with the LDCs, switching to settlement in convertible currencies. It has also switched portions of its trade with soft currency trade partners—mainly military trade with Syria—to a hard currency basis. Reflecting Soviet preference, trade agreements signed since the mid-1970s with Ethiopia, Angola, and Mozambique call for all payments to be transacted in hard currency, despite Moscow's close relationship with these countries. (See appendix A for a list of the

Clearing Accounts:
A Sophisticated Form of Barter

The USSR and its soft currency trading partners conduct most bilateral trade on the basis of trade and payments agreements that balance trade annually. Through these arrangements, Soviet exports and services are essentially bartered for imports and services. To assure that trade is roughly balanced, trade agreements are signed in conjunction with the payments agreements. The trade agreements specify commodities to be traded and usually set target levels for trade. Such arrangements assure each side of a certain level of trade and make it easier for the Soviets to plan trade with these countries. At the same time, each side also loses a certain degree of the flexibility permitted by multilateral trade.

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Although agreements differ substantially from country to country, they all provide for special "clearing" accounts for transactions related to trade and other activities such as freight insurance, shipping, and tourism. These accounts are denominated either in the currency of the LDC trading partner or in a Western currency, usually pound sterling or US dollars. Most accounts include a mechanism for extending "technical" credits up to a small, set amount to cover imbalances in bilateral payments due to variations in delivery schedules. The agreements also establish procedures for settling imbalances greater than allowed for by technical credits, often allowing for settlement in convertible currencies. (See appendix B for details of individual payments agreements.)

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Not all of the USSR's trade with its soft currency trading partners, however, is conducted through clearing account arrangements. For example, most military exports to Syria have been settled in hard currency. In addition, the Soviet agreement with Bangladesh states that contracts can be concluded—presumably outside the bilateral trade protocol—for which payment in hard currencies is required. Moreover, the USSR has on occasion arranged specific barter deals with both its hard and soft currency partners. India agreed in 1979 to exchange Indian rice and other agricultural commodities for Soviet petroleum and petroleum products. Since 1980, Moscow has exchanged fertilizer for Thai corn and rice, and buses and trams for Colombian coffee. Both Soviet and LDC efforts to find ways to expand exports could lead to more of these deals in the future.

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USSR's soft and hard currency trade partners.) Moscow's major soft currency partners are those countries with which the USSR has established close, long-lasting, and mutually beneficial economic ties—that is, India, Afghanistan, Iran, and Syria (civilian trade). But Egypt has remained an important Soviet LDC trade partner and continues to trade with the USSR on a soft currency basis even though its political relations with the USSR deteriorated sharply in the early 1970s. Trade ties with Bangladesh and Pakistan, the USSR's other two soft currency trading partners, have not developed to the same extent.

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The movement toward more trade in hard currency gives the USSR greater flexibility in structuring its imports and exports. Moscow is not required to import unwanted commodities in exchange for fuels and other materials to balance bilateral trade. Trade with Algeria and Morocco, for example, shifted from basically balanced trade to a Soviet surplus as Moscow reduced its imports following the switch to hard currency trade in 1980 and 1982, respectively.

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Although the USSR's hard currency trade with the LDCs requires no bilateral balancing, Moscow has pointed to the existence of large trade deficits as a hindrance to expanding trade. In particular, Brazil and Argentina have been pressed to increase their purchases of Soviet commodities to reduce the huge trade surpluses these countries have enjoyed with the USSR in the early 1980s. In response, Brazil resumed purchases of Soviet oil in 1982 and, according to US Embassy sources in Buenos Aires, the Government of Argentina is pressing government enterprises and agencies to purchase more from the USSR and Eastern Europe.

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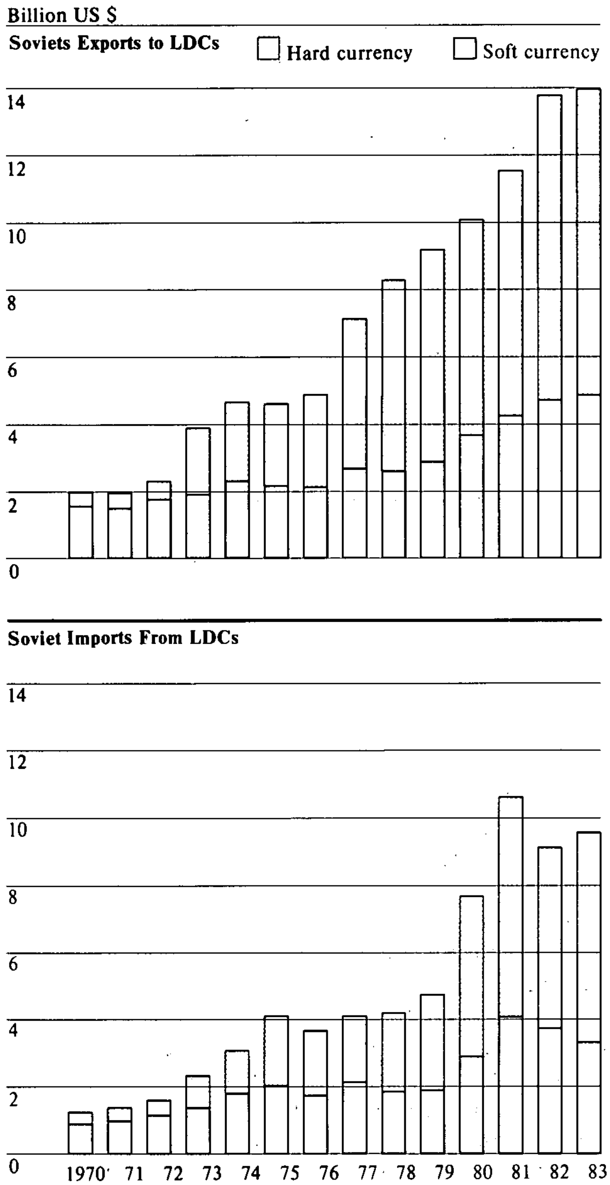
Figure 5
USSR: Hard and Soft Currency Trade With the LCDs, 1970-83



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Composition of Exports

Although the USSR often touts itself as a supplier of machinery and equipment to the Third World, most LDCs find Soviet civilian equipment to be of poor quality and generally not competitive with that from the West. Consequently, Soviet exports are dominated by sales of military equipment and related supplies, limited types of civilian machinery, and, increasingly, petroleum and petroleum products (see table 2). 25X1

Military Sales. Soviet military exports have consistently been the largest and most dynamic element in USSR-LDC trade, increasing from slightly over one-half of total Soviet exports in 1970 to almost 70 percent in 1983 (see figure 6). The value of military exports (including deliveries of major weapon systems, spare parts, ordnance, and other support materials) reached a record of more than $9 billion in 1982 and remained at about that level in 1983.[4] The hard currency portion of these exports totaled an estimated $7 billion in 1983, ranking second only to oil in Soviet hard currency exports. Exports of military supplies accounted for over 20 percent of total hard currency exports in 1983. 25X1

The USSR's military sales program is its major tool for establishing its presence and expanding Soviet influence in the LDCs. Moscow is able to provide assistance quickly to establish and bolster friendly regimes—as it did in the mid-1970s in Angola, Ethiopia, and Mozambique—or to rebuild war-depleted inventories, as it did recently for Syria. Moscow has also turned this program into an extremely profitable enterprise. Since the early 1970s, it has raised its prices to levels comparable to those of Western equipment and has mounted an aggressive sales campaign, offering sophisticated and expensive weapon systems to its major customers—especially Syria, Libya, and Iraq. Spurred by increased competition from Western arms suppliers, the USSR has also demonstrated a

[4] These estimates are derived from Soviet trade statistics for the purposes of estimating trade flows. They are generally higher than official US estimates of the value of military deliveries. The main difference between these two estimates is the valuation of follow-on supplies needed to maintain LDC inventories of Soviet military equipment (appendix C describes the methodology used in calculating military exports from Soviet statistics). 25X1

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Table 2
USSR: Exports to Less Developed Countries (f.o.b.), 1970-83

Million US $

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total	**1,975**	**4,598** [a]	**4,878**	**7,121**	**8,267**	**9,186**	**10,070**	**11,525**	**13,763**	**13,940**
Military [b]	1,048	2,516	2,942	4,810	5,860	6,126	6,149	7,437	9,358	9,307
Civilian	927	2,082	1,936	2,311	2,407	3,060	3,921	4,088	4,405	4,633
Machinery and equipment	529	884	979	1,133	1,349	1,574	1,617	1,481	1,692	1,893
Fuels	67	468	481	653	571	965	1,490	1,689	1,955	2,113
Of which:										
Petroleum and petroleum products	60	422	446	615	543	939	1,455	1,649	1,912	2,065
Ferrous metals	94	104	49	50	44	54	92	65	59	52
Chemicals	16	118	42	71	78	71	182	287	216	118
Wood and wood products	59	162	153	169	139	143	239	237	199	182
Agricultural commodities	94	165 [a]	75	74	72	95	114	157	146	118
Other	67	181	157	161	154	158	187	172	138	157

[a] Adjusted for grain exported to India on credit, which is not reflected in Soviet trade statistics.
[b] This item was estimated from the reported export residual in published Soviet LDC trade figures (that is, the difference between Soviet reported exports to the LDCs and Soviet reporting on exports to individual LDCs), unspecified exports to individual LDCs, and specific commodity exports that are assumed to be entirely or partially for military use.

25X1

high degree of flexibility in setting prices and arranging financing to attract and keep customers.[5] Moscow has offered increasingly sophisticated equipment, advanced production technology, and more attractive terms for sales to the LDCs, especially for important customers such as Iraq and India.

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The Civilian Component. Nonmilitary machinery and equipment constitute an important element of Soviet exports to the LDCs, accounting for 41 percent of total civilian exports to these countries in 1983. The LDC market provides Moscow with its only major outlet for civilian machinery and equipment exports outside the Bloc. More than 75 percent of its machinery and equipment exports to non-Communist countries go to the LDCs (for some categories of equipment, the share is as high as 85 to 100 percent).

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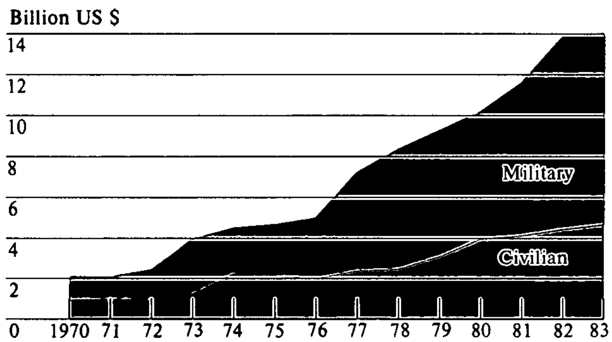
Although Soviet machinery and equipment generally lag behind the technological level of equipment sold by Western exporters, the USSR is competitive with the West in some fields, particularly in power engineering and metallurgical equipment. These two categories jointly account for more than 40 percent of machinery and equipment exports to the LDCs. 25X1

Moscow, however, is having increasing difficulty expanding its sales of machinery and equipment. Countries that once relied heavily on the USSR for industrial development (such as India and Iraq) have since the late 1970s looked increasingly to Western suppliers to modernize their industries. In the case of India, domestically produced machinery already has largely replaced Soviet imports. To overcome its lack of competitive equipment and secure lucrative contracts,

Figure 6
USSR: Exports to the LDCs, 1970-83



[redacted]

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the USSR has begun to incorporate Western components in project proposals. A further hindrance to the USSR's efforts to expand its machinery and equipment exports is its unwillingness to provide financial assistance to cover the domestic costs to the LDCs of Soviet-assisted projects to which a large share of Soviet machinery and equipment exports are directed. Soviet offers of machinery and equipment on credit have probably become less attractive to the LDCs as their economic problems have increasingly limited domestic funds for such projects. [redacted]

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In contrast to machinery and equipment exports, Soviet sales of petroleum and petroleum products to the LDCs have increased dramatically, rising from $60 million in 1970 to $2.1 billion in 1983. Although much of the increase resulted from rapidly rising world prices, Moscow in recent years has more than quadrupled the volume of oil it exports to the LDCs. Compared with the roughly 40,000 barrels per day (b/d) the USSR exported prior to 1977, sales in 1983 stood at about 180,000 b/d. [redacted]

25X1

The rapid growth in oil exports largely reflects Moscow's efforts to balance trade with selected countries. Since the mid-1970s, exports of petroleum to India have become the driving force behind rapidly rising bilateral trade, as India was unwilling to accept greater quantities of Soviet machinery and equipment. Brazil, in an effort to reduce its chronic trade surplus, also agreed to buy Soviet oil after finding other potential Soviet offerings unattractive. According to the US Embassy in Buenos Aires, Argentina is currently considering importing oil from the USSR. Moscow also uses its oil exports to support important client states. About 12 percent of total Soviet petroleum exports to the LDCs in 1983 went to Ethiopia and Afghanistan, for example, and in late 1983 the USSR began shipping oil to Nicaragua. [redacted] 25X1

The remaining 15 percent of the USSR's civilian exports to the Third World consist largely of ferrous metals, chemicals, wood products, agricultural commodities, and consumer goods. Only a small quantity of nonpetroleum raw materials are exported to the LDCs, partially because of the low demand in the Third World for such imports. Even if greater LDC demand for these products existed, however, Soviet domestic production difficulties would probably prevent the USSR from stepping up the volume of sales appreciably. These difficulties are perhaps mirrored in Soviet exports to the LDCs. When inflationary trends of the 1970s are taken into account, the volume of exports of these commodities has declined substantially. The rapid expansion of chemical exports, paralleling growth in the chemical industry, is the major exception. [redacted] 25X1

Composition of Imports

Soviet imports from the LDCs are as narrowly focused as Soviet exports, with the composition and size of purchases largely reflecting Soviet domestic requirements. Contrary to claims that the USSR offers the LDCs a growing market for their nontraditional exports, Soviet imports consist mostly of agricultural commodities and raw materials (see table 3). Most of the import growth that has occurred since 1979 is the result of rapidly rising agricultural purchases. In 1981, imports of agricultural products from the LDCs rose to a record $6.7 billion even though hard currency shortages led to a cutback in purchases of luxury items such as coffee and cocoa. Improved agricultural production in the USSR in 1982 combined with lower commodity prices brought a more than 30-percent reduction in these imports. [redacted] 25X1

Table 3
USSR: Imports From LDCs (f.o.b.), 1970-83

Million US $

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total	**1,240**	**4,089**	**3,657** [a]	**4,096** [a]	**4,185** [a]	**4,743**	**7,664**	**10,627**	**9,127** [a]	**9,568**
Agricultural products	883	2,366	2,060 [a]	2,234 [a]	2,067 [a]	2,322	4,573	6,665	4,580 [a]	4,262
Petroleum and petroleum products	25	552	535	538 [b]	749 [b]	925 [b]	831 [b]	1,103 [b]	1,781 [b]	2,569 [b]
Natural gas	22	253	234	260 [c]	265 [c]	178 [c]	254 [c]	269	287	300
Other raw materials	28	140	108	144	108	195	206	226	191	321
Manufactured goods	209	550	492	534	523	577	897	1,208	1,390	1,158
Textiles	113	332	299	349	314	343	488	590	661	626
Machinery and equipment	3	26	27	32	62	65	65	121	213	193
Other	93	192	166	153	147	169	344	497	516	339
Other commodities	73	228	228	386	473	546	903	1,156	898	958

[a] Adjusted for repayment of grain credits extended to India and Bangladesh, which were made in kind.
[b] Estimated from unspecified Soviet category 2 imports (fuels, minerals, and metals) from Iraq, Libya, and—in 1981-83—Iran.
[c] Iranian natural gas exports were estimated from the difference between total reported Soviet imports from Iran and imports specified by type.

Source: Soviet foreign trade statistics.

25X1

Following the January 1980 partial US embargo on sales of grain and other agricultural products to the USSR, the LDCs gained a more important role as suppliers of farm products to the USSR. Argentina and Brazil benefited the most. Argentina, which previously provided 10 percent or less of total Soviet grain imports, supplied 37 percent of these imports in 1981 and 22 percent in 1982. To assure supplies of key farm commodities, Moscow has entered into long-term trade agreements (LTAs) with Argentina and Brazil that extend through 1985 and 1986, respectively. These LTAs guarantee the delivery of specific quantities of grain, soybeans, soybean meal, and several other commodities.

25X1

The LDCs have also supplied the USSR with a variety of tropical commodities unavailable elsewhere. Almost all of Soviet domestic requirements for natural rubber, for example, are met through imports from Indonesia, Malaysia, and Sri Lanka. Other items purchased almost exclusively from LDCs include coffee, cocoa beans, bananas, and spices. In addition, about 60 percent of the oranges imported, an amount close to 35 percent of Soviet estimated domestic consumption, come from the Third World.

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Although the USSR is largely self-sufficient in the production of nonagricultural raw materials, imports of these commodities play an important role in trade with the LDCs—accounting for 25 percent of total imports. The bulk of these imports consists of crude petroleum that the USSR lifts from OPEC countries for resale to third countries. In the past, most of the goods the USSR accepted were in repayment for past assistance. Increasingly, however, Moscow has had to accept oil in lieu of hard currency payments for military purchases. After declining in the late 1970s, oil imports began increasing in 1981 and surged to a record of almost 200,000 b/d in 1982 and to 255,000 b/d in 1983 (see inset).

25X1

Moscow has also been a steady purchaser of natural gas piped through Soviet-built pipelines from Afghanistan and, before 1980, Iran. Although the USSR is a net exporter of natural gas, these imports allow a marginally more cost-efficient distribution of available supplies to domestic users in bordering areas of Central Asia and the Caucasus.

25X1

Net Soviet Oil Trade With the LDCs

The USSR both sells and buys petroleum and petroleum products in its trade with the Third World. None of the purchased oil (almost entirely crude) is used by the USSR domestically. Rather, it is resold to third countries, allowing Moscow to reduce shipping costs and increase its oil exports beyond domestic capabilities. Much of this oil is exported to other LDCs, such as India, Morocco, and Cyprus. Petroleum product exports, on the other hand, are supplied to the LDCs from Soviet domestic supplies. [redacted]

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Since 1970, the Soviet oil trade balance vis-a-vis the LDCs has shifted several times:

Thousand b/d

	1970	1975	1980	1981	1982	1983
Net imports	−21	74	−36	−34	45	76
Imports	50	130	78	98	197	255
Exports	71	56	114	132	152	179

After going from a net exporter to a net importer between 1970 and 1975, Moscow's trade position was again reversed. Following Soviet agreement in 1982 to accept Libyan oil in lieu of cash for arms sales, Moscow again became a net oil importer. Increased purchases from Iran and Iraq together with the startup of liftings from Saudi Arabia have strengthened the USSR's net import position vis-a-vis the LDCs. The Saudi oil helps Iraq meet part of the payments due to Moscow for arms purchases. [redacted]

These increased oil imports have allowed Moscow to increase its deliveries to other LDCs without having to draw on its own domestic supplies. In addition, the USSR has also increased its deliveries to customers such as Finland and Yugoslavia and has been able to sell more oil on Western markets for hard currency, mainly through the spot market. While not all of the increased oil exports have gone to hard currency customers, Soviet access to OPEC oil has been the primary reason the USSR has been able to boost its hard currency earnings from oil exports at a time of depressed world oil prices. These oil barter arrangements are, nevertheless, only a second-best solution. Moscow would much prefer to receive cash in payment for its exports. [redacted]

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Soviet imports of nonenergy raw materials from the LDCs are small—accounting for only 3 percent of total imports. Moscow does, however, rely on imports for a portion of its domestic needs for some resources. Imports of bauxite (primarily from Guinea) and tin (from Malaysia, Singapore, and Bolivia) account for roughly 25 percent and 35 percent, respectively, of available Soviet supplies. Imports of phosphates, largely from Morocco, play a minor role in fertilizer production. An agreement between the USSR and Morocco for the development of Moroccan phosphates could, however, increase their importance in the Soviet fertilizer industry. Preliminary work is already under way. [redacted] 25X1

Approximately 12 percent of Moscow's imports from the developing countries consist of manufactured commodities, almost all of which come from its soft currency trade partners. Textiles represent almost half of the value of these imports and are supplied mainly by India and Egypt. Although imports of machinery and equipment have grown rapidly since 1975, the value remains small—only $193 million in 1983. These imports have come almost exclusively from India, which supplies a variety of equipment based partly on Soviet technology. [redacted] 25X1

In the past the USSR did not regard the more industrialized LDCs such as Brazil, Mexico, and Singapore as a source of Western-manufactured commodities, particularly machinery and equipment, but the Soviets have shown increased interest in such commodities in recent years. [redacted] Brazilian startup devices based on West German technology are being used on the Siberia–to–Western Europe pipeline. The Soviets have also expressed interest in Mexican oil technology and in early 1984 agreed to purchase Mexican speciality steels for the oil industry. It is not likely, however, that such interest will soon translate into either sizable or sustained purchases, given traditional Soviet preference for dealing with established firms in

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the industrialized West, its penchant for state-of-the-art technology, and the aftersales services that only the larger firms in the developed West can provide. [redacted]

Service Transactions

To support its commodity trade with the LDCs and increase foreign exchange earnings, the USSR provides a broad range of services, including military and civilian technical assistance, participation in joint ventures, and shipping. From Moscow's perspective, the technical services are probably the most important, both for the hard currency they earn and as an instrument to expand influence in the Third World. Over the past few years, these services are estimated to have earned Moscow at least $300 million annually, over 90 percent of which is in hard currency. [redacted] 25X1

During the past decade, the USSR has sharply increased the number of technical personnel stationed in the LDCs. Civilian technical services are the fastest growing support operation. We estimate that the number of Soviet economic personnel in the non-Communist LDCs has increased from 10,000 in 1970 to more than 40,000 in 1983. Most of these technicians work on Soviet construction projects, such as steel mills and oil development projects. In addition, a relatively small number of Soviet personnel serve as doctors, teachers, and advisers on economic matters. 25X1 [redacted] except for a few doctors and teachers provided free, the Soviets charge heavily for these services—over $50,000 a year for a project manager and nearly as much for geologists, interpreters, and other less senior personnel. [redacted] 25X1

The Soviet military technical presence has also grown rapidly. In 1983 an estimated 17,525 Soviet military technicians were stationed in the LDCs, compared with an annual average of 7,500 during 1970-75. This program focuses primarily on advisory and training functions in Africa and the Middle East. In a number of countries—mainly Iraq, Angola, Ethiopia, Libya, and Syria—the Soviets have played a key role in improving military capabilities through a pervasive presence that sometimes reaches far down into the military ranks. Moreover, the increasing sophistication of exported Soviet military systems has increased the need for Soviet-performed maintenance in the host LDC as well as in the USSR. For instance, periodic aircraft engine overhauls in the USSR have become a standard procedure for most Soviet clients. Charges for this kind of maintenance can be high, with concessions usually made only for Moscow's poorest clients. [redacted] annual salaries can run as high as $30,000 per Soviet technician depending on rank and the types of services to be performed, with the average rate about half this amount. [redacted] 25X1 25X1

Closely related to the technical assistance program is Moscow's participation in projects with Western firms. According to a Soviet publication, the USSR State Committee for External Economic Relations cooperates with more than 200 firms in more than 25 Western countries. Most of this cooperation takes the form of subcontracts awarded to Western firms, but it also includes Soviet participation in international consortiums. These forms of cooperation extend to many of the major Soviet commercial undertakings in the LDCs that have been launched since the mid-1970s, including power plants in Iran and Iraq; metallurgical plants in India, Iran, and Pakistan; oil- and gas-producing facilities in Iraq and Afghanistan; oil and gas pipelines in Libya, Nigeria, and Algeria; and grain elevators in Iran. A Brazilian construction firm, for example, will cooperate with a Soviet foreign trade organization on the construction of a dam and hydropower station in Angola. [redacted] 25X1

Finally, the USSR gains considerable revenue from shipping services provided to the LDCs. It maintains a large merchant marine to support its overseas trade. Moscow prefers to use Soviet ships to transport its exports and imports, particularly in its trade with the LDCs. In this way, it can maximize its earnings from its exports through additional charges for freight and insurance and reduce its foreign exchange expenditures on imports. Only in its trade with India is the USSR obligated to use Indian ships for a specified portion of trade. In addition, the USSR must charter additional ships from the international freight market to transport some imports from the LDCs, such as Argentine grain. [redacted] 25X1

Financing the Trade

The USSR's financial support for its trade with the LDCs can best be described as realistic. It offers terms—especially on sales of military equipment—tailored both to the country's ability to pay and to its dependence on the USSR for supplies. Attractive financial terms (low interest rates and long repayment terms) have been used more to break into new markets and retain some old ones than to provide generous economic assistance. All credit offers are tied to purchases of Soviet equipment and services. For accompanying spares, technical services, and other support elements, Moscow generally demands cash, often in advance. [redacted]

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Military Assistance

Before 1973, the USSR's military exports were financed almost entirely with long-term credits of at least 10 years' duration with low interest rates of 2 percent. In addition, most of the equipment sold was discounted heavily—often by 50 percent or more from the list price. Following the 1973 oil embargo and the ensuing oil price increases, the concessionary elements were reduced sharply. By the late 1970s, price discounts had largely disappeared from Moscow's military export program, and today they are reserved for the USSR's closest and poorest clients. In addition, since several of its major customers are OPEC members or, in the case of Syria, have had access to sufficient OPEC funds through the Baghdad Accords, the USSR has had little incentive to offer credits and in fact has often insisted on downpayments of 25 to 50 percent.[6] For countries like Libya, Iraq, and Syria—where, until recently, cost has not been an obstacle—Moscow's major selling point is its willingness to provide sophisticated weapon systems on a timely basis that Western arms exporters generally have been reluctant to sell to them. [redacted]

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Moscow probably does not expect to conclude military sales agreements with its poorer customers without offering concessionary credits. Generally, the Soviets offer their clients 10-year credit terms with interest rates of 2 to 4 percent and a grace period of up to two years. These terms, however, can vary considerably, depending on the country purchasing the equipment and the type of equipment being sold. [redacted] 25X1

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[redacted] In mid-1983, the Peruvian Air Force agreed to purchase Soviet helicopters on 10-year credits at 5-percent interest. Earlier sales to Peru included interest rates as low as 2 percent. Even more generous credit arrangements have been extended to India and Afghanistan. Under the terms of the Indo-Soviet military trade agreement of 1980, for example, credits to India carry 15-year repayment terms at 2- to 3-percent interest and a two-year grace period. [redacted] 25X1

These easy credit arrangements apparently apply only to sales of major weapon systems. For follow-on support and resupply of spares, maintenance, and ordnance, Moscow usually demands cash in advance or at the time of delivery. It does not hesitate to pressure even key client states like Libya, Syria, Angola, and Mozambique to make the required payments. According to a US Embassy source in Maputo, for instance, half of Mozambique's aircraft were grounded in late 1982 because of a lack of hard currency to purchase the required spare parts. A credit agreement with Peru in mid-1983 covering the supply of spare parts, maintenance equipment, and ammunition is one of the few exceptions to this policy. [redacted] 25X1

In some cases, Moscow has been willing to adapt to the financial circumstances of its customers. Afghanistan and Ethiopia, in particular, have received discounts of 75 percent and 50 percent, respectively, off the list prices. These discounts, which represent a substantial grant element in Soviet military trade with these clients, are valued at $1.6 billion between 1975 and 1982. Less important customers such as Congo and Burundi reportedly have also received discounts of 30 to 50 percent on some purchases. Moreover, following the Syrian setback in Lebanon in the summer of 1982, Moscow replaced Syrian losses on terms that included grants and favorable credits,

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[6] The Baghdad Accords, signed in November 1978, provide for the transfer of funds from wealthy Arab states, mainly Saudi Arabia, Kuwait, and the United Arab Emirates, to countries such as Syria and Jordan to be used for purchases of military supplies, as well as economic development and budgetary support. [redacted]

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[redacted]

The Economic Assistance Program

A substantial share of Soviet exports of machinery and equipment—the primary component of Moscow's economic assistance program—is also financed with credits. Since 1975 between 35 and 50 percent of these exports have been sold on credit. Loans to support exports of other commodities and grants are small and reserved for the USSR's more important partners.[7] Credits are occasionally extended to cover the costs of Soviet technical services as well. This funding is usually covered by the extension of Soviet state credits, the basis for which is established in state-to-state agreements. These credits generally carry concessional terms of 10 to 12 years at 2- to 3-percent interest, with a grace period of one to three years. Some of the larger projects, however, have carried 12- to 15-year repayment terms.[8] [redacted] 25X1

As is the case with military credits, the most generous terms have gone to Afghanistan, which has received economic credits ranging up to 30 years with grace periods of up to eight years. India has also received very generous terms. [redacted] This easing of terms demonstrates Moscow's ability to adjust the terms of its credits to deal with Western competition. [redacted] 25X1 25X1

The USSR has increasingly supplemented its state credits with less generous credits negotiated between Soviet foreign trade organizations and public and private enterprises in the LDCs, reflecting a growing commercial orientation of Soviet trade with the Third World. To facilitate these arrangements, Moscow has signed agreements with a number of LDC governments, including those of Argentina, Brazil, Peru, Bolivia, Colombia, India, and Mexico. Generally, these agreements set credit terms of up to 10 years for repayment at 4.5-percent interest for state organizations and 5-percent interest for private organizations with a 15-percent downpayment.[9] These types of credits have been used extensively in the sale of power equipment to several South American countries. The largest sale made under such terms was for the Ajaokuta Steel Mill in Nigeria. [redacted] 25X1 25X1

Although the terms cited above are typical for Soviet commercial credits, Soviet trade officials have increasingly been offering, and successfully negotiating, terms at even higher interest rates. Moscow would like to obtain a rate of return on the credits it offers that is more in line with prevailing commercial interest rates but still relatively attractive. [redacted] 25X1 25X1 25X1 25X1 25X1

About 5 percent of Soviet aid extended between 1970 and 1982 consists of grants. Of the almost $900 million of grant aid extended since 1970, approximately 70 percent has gone to Afghanistan, in the form of deliveries of food and other consumer goods,

[7] Between 1970 and 1982, commodity credits amounted to an estimated $700 million, or only about 4 percent of total economic aid extended by the Soviet Union. [redacted] 25X1

[8] The OECD definition of "concessionality" is used here. It includes credits with a minimum 25-percent grant element based on interest rates and length of repayment and grace period. For example, a loan with repayment of 12 years at 2-percent interest with a three-year grace period would be concessional, while a 10-year credit at 4-percent interest and no grace period would not. [redacted] 25X1

[9] The Indian agreement stipulates an interest rate of 4 percent on all credits. [redacted] 25X1

Table 4
USSR: Estimated Resource Payback
From Aid Programs in LDCs, as of December 1983

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

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

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and to Ethiopia, mostly in the form of discounts on the price of Soviet oil since 1979. The remaining grant aid is distributed among numerous LDCs, mostly in Africa. Most of this aid consists of modest food grants, generally 2,000- to 5,000-ton donations of grain.

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Methods of Payment

The methods to be used by LDCs in settling their financial obligations to the USSR are either specified in contracts or based on general trade and payment agreements between the USSR and its LDC trading partner. Most payments are in the form of straight cash transfers—either of hard currencies or, in the case of Moscow's soft currency partners, nonconvertible currencies through the clearing account. A number of compensation agreements, however, call for repayment of Soviet assistance in output from the project (see table 4).

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Moscow expects prompt payment for all transactions. When obligations are not met, it has on occasion resorted to pressure to elicit the required payments. For example, the pace of Soviet deliveries of military equipment to Libya slowed in early 1982 at a time when Libya was in arrears. [redacted] 25X1

[redacted] 25X1

Even though Moscow takes a tough stance with regard to cash payments, it has been willing to accept commodities when necessary to avoid long payment delays or debt rescheduling. [redacted] 25X1

[redacted] 25X1

25X1 [redacted] Soviet acceptance of OPEC oil to cover the financial obligations of both Libya and Iraq has already been noted. These arrangements require Moscow to market these additional oil imports to generate the revenues it would have otherwise received directly. Nevertheless, given the financial constraints faced by these countries because of a soft oil market and, in Iraq's case, its prolonged war with Iran, the USSR undoubtedly prefers oil deliveries to delayed payments in cash.[10] [redacted] 25X1

For those countries that are unable to meet scheduled debt repayments and do not have products to offer in lieu of cash payments, the USSR has generally been willing to reschedule the debt, but usually only after protracted negotiations. As the poorer LDCs have run into increasing problems in servicing their international debt in recent years, Moscow has been obliged to restructure debt payments for a number of countries, including Peru, Ethiopia, Madagascar, and Tanzania. With several other impoverished countries facing substantial increases in their debt servicing commitments to the USSR in the near future, new rescheduling agreements are likely. [redacted] 25X1

25X1 [redacted]

The Balance of Payments

To analyze the USSR's economic relations with the LDCs as a whole, we have constructed a Soviet balance of payments with the LDCs that pulls together the separate elements of Soviet trade and credit relations. Trends in the current account balance reflect a growing Soviet surplus with the LDCs, with large but fluctuating agricultural imports only temporarily stemming this trend—in 1975-76 and again in 1980-81 (see table 5). Meanwhile, credits have been financing a smaller share of total Soviet exports, at least through 1979. Moreover, throughout most of the 1970s and into the 1980s, repayments have offset more than half of credits drawn, thereby substantially reducing the capital account balance. Because of these trends, the net Soviet balance in its trade with the Third World has grown rapidly since the mid-1970s, reaching a peak of over $5 billion in 1979. Even as imports of agricultural commodities grew in 1979-81, the net balance remained high. This net balance translates into sizable net earnings for Moscow in its LDC trade.[11] [redacted] 25X1

Earnings from military sales are largely responsible for the favorable Soviet trade position. According to our calculations, the USSR has been earning $6-8 billion annually in recent years from its military sales program alone (see table 6). Even Moscow's modest economic assistance program appears to have been largely self-sustaining in recent years. We judge that since 1970 repayment of principal and interest on earlier credits has for the most part offset—and in some years may have even exceeded—new drawings. With outstanding LDC debts to the USSR at the beginning of 1983 estimated at almost $18 billion—including an estimated $11 billion owed by hard currency trading partners—the LDC repayment obligation will remain considerable through 1990. As noted above, some countries will probably have to reschedule their repayments. [redacted] 25X1

[11] The net balance also incorporates unreported transactions, such as additional credits, as well as any errors in the methodology. [redacted] 25X1

Table 5
USSR: Estimated Balance of Payments With the LDCs, 1970-82

Million US $

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Current account balance	**995**	**1,064**	**1,871**	**3,935**	**5,142**	**5,638**	**3,566**	**2,098**	**6,196**
Trade balance	735	509	1,221	3,025	4,082	4,443	2,406	898	4,636
Exports (f.o.b.)	1,975	4,598	4,878	7,121	8,267	9,186	10,070	11,525	13,763
Of which:									
Military	1,048	2,516	2,942	4,810	5,860	6,126	6,149	7,437	9,358
Imports (f.o.b.)	−1,240	−4,089	−3,657	−4,096	−4,185	−4,743	−7,664	−10,627	−9,127
Shipping	135	250	305	515	625	680	625	620	920
Technical services	25	120	145	175	225	285	295	300	350
Interest earnings	100	185	200	220	210	230	240	280	290
Military	45	120	130	150	140	155	160	195	195
Economic	55	65	70	70	70	75	80	85	95
Capital account balance	**−645**	**−690**	**−740**	**−1,190**	**−1,200**	**−420**	**−1,070**	**−1,085**	**−2,845**
Credit drawings	−1,165	−1,750	−1,930	−2,620	−2,665	−1,890	−2,605	−2,755	−4,660
Military	−830	−1,305	−1,520	−2,125	−2,220	−1,320	−2,035	−2,085	−3,805
Economic	−335	−445	−410	−495	−445	−570	−570	−670	−855
Repayments	520	1,060	1,190	1,430	1,465	1,470	1,535	1,670	1,815
Military	300	715	820	940	945	1,060	1,115	1,225	1,350
Economic	220	345	370	490	520	410	420	445	465
Net balance [a]	**350**	**374**	**1,131**	**2,745**	**3,942**	**5,218**	**2,496**	**1,013**	**3,351**
Hard currency	50	6	479	2,434	3,009	4,043	1,635	846	2,743
Soft currency	300	368	652	311	933	1,175	861	167	608
Outstanding debt	**4,970**	**9,270**	**10,010**	**11,140**	**12,295**	**12,715**	**13,785**	**14,875**	**17,715**
Military	2,530	6,345	7,045	8,230	9,505	9,765	10,685	11,545	14,000
Economic [b]	2,440	2,925	2,965	2,910	2,790	2,950	3,100	3,330	3,715

[a] The net balance includes both net Soviet earnings and errors and omissions in the methodology. The net hard currency balance is probably a minimum value with the net soft currency balance including transactions settled in hard currency as well as most of the errors and omissions.
[b] The value of economic debt has been adjusted to reflect price differences between the value of grain credits extended to India and Bangladesh and the repayment of these credits made in kind.

25X1

Table 6
USSR: Estimated Earnings From Military Sales, 1970-82

Million US $

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Military exports (c.i.f.) [a]	1,153	2,768	3,235	5,291	6,446	6,739	6,764	8,181	10,294
Credits extended	−830	−1,305	−1,520	−2,125	−2,220	−1,320	−2,035	−2,085	−3,805
Repayment	345	835	950	1,090	1,085	1,215	1,275	1,420	1,545
Principal	300	715	820	940	945	1,060	1,115	1,225	1,350
Interest	45	120	130	150	140	155	160	195	195
Net earnings	668	2,298	2,666	4,256	5,311	6,634	6,004	7,516	8,034
Hard currency	177	1,459	1,710	3,353	4,261	5,508	4,870	5,990	6,223
Soft currency	491	839	956	903	1,050	1,126	1,134	1,526	1,811

[a] Converted from the f.o.b. value estimated from Soviet statistics to a c.i.f. value using a UN standard coefficient of 10 percent.

25X1 [redacted]

The Basic Balance-of-Payments Items [a]

25X1 *The **trade balance** is calculated from reported Soviet exports to and imports from the LDCs, including trade not specified by partner country.* [redacted]

*The **shipping** estimate represents net Soviet earnings from the shipping and insurance services the USSR provides. The value of freight and insurance charges was derived from a UN standard coefficient of 10 percent of the f.o.b. value of trade and the assumption that all the USSR's exports to, but only half of its imports from, the LDCs are transported on Soviet ships.* [redacted] 25X1

*Estimated earnings from **technical services** are based on average reported charges, applied to all LDCs required to reimburse Moscow for services rendered.* [redacted] 25X1

25X1 ***Interest earnings** are based on estimated outstanding debt owed by the LDCs to the USSR with assumed average interest rates of 2.5 to 3 percent.* [redacted]

***Credit drawings** by the LDCs are estimated from Soviet exports to individual LDCs, including estimated military exports, on the basis of available information on military and economic assistance programs.* [redacted] 25X1

***Repayments** are calculated by assuming standard repayment terms of 10 years beginning one year after delivery with adjustments made on repayment of credits where different terms are known to exist or a rescheduling of repayments has occurred. We have also estimated repayments on credits drawn prior to 1970.* [redacted] 25X1

***Debt** owed by the LDCs to the USSR is estimated by adding annual net credit drawing (gross drawings less repayments of principal) to outstanding debt at the end of the previous year, beginning with an initial stock of debt of about $4 billion at the end of 1969.* [redacted] 25X1

[a] *Appendix D provides a complete discussion of the methodology used in estimating the balance of payments.* [redacted] 25X1

Table 7
USSR: Estimated Hard Currency Balance of Payments With the LDCs, 1970-82

Million US $

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Current account balance	**130**	**721**	**1,229**	**3,204**	**4,124**	**4,368**	**2,521**	**1,711**	**4,893**
Trade balance	70	371	824	2,479	3,329	3,448	1,631	726	3,653
Exports (f.o.b.)	423	2,442	2,756	4,451	5,676	6,311	6,406	7,278	9,056
Of which:									
Military	239	1,885	2,155	3,644	4,760	5,135	5,068	5,900	7,162
Imports (f.o.b.)	−353	−2,071	−1,932	−1,972	−2,347	−2,863	−4,775	−6,552	−5,403
Shipping [a]	35	175	200	475	500	550	500	550	750
Technical services	10	100	120	150	195	255	265	270	320
Interest earnings	15	75	85	100	100	115	125	165	170
Military	10	65	75	90	90	100	105	135	130
Economic	5	10	10	10	10	15	20	30	40
Capital account balance	**−80**	**−715**	**−750**	**−770**	**−1,115**	**−325**	**−910**	**−865**	**−2,150**
Credit drawings	−185	−1,090	−1,230	−1,360	−1,760	1,050	−1,750	−1,810	−3,195
Military	−170	−1,010	−1,160	−1,275	−1,640	−890	−1,530	−1,440	−2,665
Economic	−15	−80	−70	−85	−120	−160	−220	−370	−530
Repayments	105	375	480	590	645	725	840	945	1,045
Military	75	330	425	530	575	650	720	805	890
Economic	30	45	55	60	70	75	120	140	155
Net balance	**50**	**6**	**479**	**2,434**	**3,009**	**4,043**	**1,611**	**846**	**2,743**
Outstanding debt	**850**	**3,880**	**4,630**	**5,415**	**6,555**	**6,860**	**7,990**	**8,890**	**11,050**
Military [b]	595	3,555	4,290	5,035	6,100	6,340	7,150	7,785	9,560
Economic	255	325	340	380	455	520	840	1,105	1,490

[a] We have assumed that a larger share of Soviet earnings from shipping comes from hard currency trade because the distance from the USSR to its hard currency partners is greater than the distance to its soft currency partners. In addition, a larger share of hard currency trade (both exports and imports) probably is carried on Soviet ships.

[b] The hard currency debt estimates are adjusted to include debt accumulated by hard currency LDC partners prior to switching from soft currency payment arrangements.

25X1

The general trends that appear in overall Soviet-LDC trade also apply to hard currency trade with the LDCs (see table 7). This trade has provided the USSR with average annual net earnings of $2.5 billion since 1976. We estimate that military sales alone now generate $5-6 billion of hard currency for Moscow annually. The estimated $11 billion in outstanding hard currency debt owed by the LDCs to the USSR represents a stream of future income for Moscow, assuming that it will be paid.

25X1

Because data for most of the line items are sparse, we have had to estimate most of the entries in our balance-of-payments tables (see inset for definitions of terms). These estimates are based on Soviet trade statistics and available information on the financial aspects of Soviet-LDC trade. Because of considerable uncertainty in the estimating procedure, however, these estimates should not be interpreted as precise values for the various financial transactions. For example, if we had assumed that in cases where the actual payment terms are not known, larger amounts of credits were extended, more lenient repayment terms (12 years instead of 10) granted, and a greater share of repayments was not being made due to LDC financial problems, our estimate of net Soviet earnings would be reduced by $300-500 million annually in the last five years.

25X1

[redacted] the USSR received a minimum of $6 billion from the LDCs in 1982, an amount equal to about 70 percent of our estimate of Soviet earnings from military sales and economic assistance programs. Inasmuch as these sources do not provide complete coverage of LDC payments to the USSR and exclude repayments of economic credits made in commodities, they suggest that our estimates of Soviet earnings from their LDC trade are reasonably accurate [redacted] 25X1

Perhaps the area of greatest uncertainty is our calculation of hard and soft currency trade and payments. The large Soviet soft currency balance that our balance-of-payments methodology generates is unexpected, since theoretically Moscow's trade and payments with its soft currency partners should be in rough balance. In addition to capturing errors in the methodology and transactions not included in our calculation such as tourism and expenses of diplomatic missions, the soft currency trade balance probably includes some trade that is actually settled in hard currency. The Soviet trade balances with Syria and Iran (at least since the cessation of natural gas deliveries in 1980) have generally been in surplus and account for much of the discrepancy. At least some of this trade has likely been settled in hard currency. Our knowledge of how the clearing accounts actually operate and what other errors and omissions are captured in the overall payments balance is insufficient to estimate the level of hard currency trade included in the soft currency trade account. [redacted] 25X1

Benefit-Cost Assessment

An Economic Perspective

The balance of costs and benefits to Moscow from its trade with the LDCs ultimately is represented by the resource flows involved and the claims on resources that may result from the current account surpluses the USSR records in this trade. The USSR engages in foreign trade to obtain goods and services that it could not produce at all domestically, or to supplement domestic production to help satisfy industry and consumer demands. We estimate that the volume of Soviet imports from the LDCs grew at an average annual rate of 7 percent between 1975 and 1981, or roughly the same rate as total Soviet imports. Unlike other Soviet imports, however, purchases from the LDCs fluctuated sharply from year to year. Since peaking in 1981, these imports have declined somewhat. [redacted] 25X1 25X1 25X1

Imports from the LDCs have helped to satisfy important Soviet domestic requirements or, in the case of oil, provided a readily marketable commodity for reexport. Agricultural imports from the LDCs, for example, help Moscow to maintain per capita consumption during periods of harvest shortfalls, and imports of tropical products improve the quality of the Soviet diet by increasing the variety of foods available. The importance to Moscow of agricultural trade with the Third World was probably given a boost by the 1980 US partial embargo, which made the LDCs a logical alternative supplier for the USSR. In addition, some of the imports, such as rubber, coffee, and cocoa, cannot be produced at all in the USSR, or only at very high cost. [redacted] 25X1

The cost to the USSR of these imports from the LDCs is the volume of Soviet exports to these countries. The resources embodied in those exports cannot be used in the production of goods for the domestic economy. In real terms, Soviet exports to LDCs have been increasing at an annual rate of about 7 to 10 percent since the mid-1970s, at least as fast as—and perhaps somewhat faster than—Soviet imports from the LDCs. [redacted] 25X1

Military exports have dominated Soviet exports to LDCs. Until the early 1970s, much of the equipment that the USSR sold to LDCs consisted of used items being retired from Soviet military forces. The cost to Moscow was represented by the resources necessary to overhaul, adapt, and ship the arms. Since then, however, the competition in the world arms market has led the Soviets to export mostly new equipment.

In recent years sales have included sophisticated equipment that only recently had been introduced into the USSR's military forces. The advanced air defense system delivered to Syria and the MIG-29s promised to India, for example, have not been fully integrated into the Warsaw Pact forces. [redacted]

25X1

The opportunity cost to the USSR of these exports has also risen as the growth of Soviet machine-building capacity has lagged behind the increase in requirements for investment goods, consumer durables, and military hardware. With the growth rate of military procurement for its own forces slowing down since 1976, the continued growth in exports of military hardware probably was thrown into especially sharp relief. [redacted]

25X1

Soviet exports of civilian manufactures have centered on power and metallurgical equipment. In this area, production facilities are sufficient to meet, for the most part, both domestic investment and export commitments. In addition, the USSR produces basic, unsophisticated equipment, particularly metallurgical equipment, which is better suited to the needs of most LDCs than more sophisticated Western equipment. Although the domestic costs of oil extraction have been increasing, during much of the period rising world market prices for petroleum made oil exports attractive. More recently, these exports to the LDCs have been more than offset by oil imports from other LDCs. The volume of most other exports has been small, and when domestic production problems have arisen in some export categories the volume of trade has been cut back. [redacted]

25X1

The USSR has consistently generated a sizable export surplus in its dealings with LDCs, both in current prices and in constant prices. This surplus, which tended to rise through the 1970s in line with the trends in imports and exports, represents a net outflow of resources from the USSR to the developing countries. As Soviet imports of agricultural commodities rose, the surplus declined to less than $1 billion in 1981, compared with $4 billion in the late 1970s. In 1982 and 1983, however, the surplus returned to a level of well over $4 billion. [redacted]

25X1

In addition to the trends in commodity trade, we estimate that the USSR has been earning on a net basis $1-1.5 billion annually in the last several years from shipping, technical services, and interest payments. Finally, the costs to the USSR must take into account the grant aid to LDCs, which does not appear in the trade statistics. During 1970-82, the value of exports furnished on a grant basis amounted to nearly $4 billion, of which $3 billion was military grant aid and $1 billion was economic aid. The value of this aid (which includes price discounts as well as outright grants) has increased sharply since 1979 after declining in the early 1970s, reflecting increased Soviet assistance to a few clients, primarily Ethiopia and Afghanistan (see table 8). [redacted]

25X1

The burden on the USSR of these accumulating current account surpluses depends on (1) LDC ability to cover the surpluses with payments of hard currency, and (2) the character of the accumulating debt of the LDCs to the USSR. Much of the Soviet surplus has in fact been covered by the LDCs in hard currency. By our estimates at least 40 percent of the surplus in recent years has been paid for in hard currency. (In the late 1970s, before imports surged, the hard currency share was as high as 60 to 70 percent.) These earnings permit Moscow to purchase machinery and equipment and other products from the developed West, where the USSR generally runs a trade deficit. When such purchases embody technology the Soviets cannot match domestically, Moscow gains from the trade. [redacted]

25X1

Most of the remainder of the surplus is covered by net additions to LDC debt owed to the USSR—over $1 billion annually since the mid-1970s. This stock of debt, which was valued at almost $18 billion at the end of 1982, will potentially generate future income to the USSR either in guaranteed deliveries of commodities important to the Soviet economy or in cash. At interest rates of 2 to 4 percent, however, the interest earnings for Moscow are probably not sufficient to totally compensate for deferring payment on its resource transfers to the LDCs. [redacted]

25X1

More important, a sizable portion (perhaps as much as 50 percent) of the $14 billion in outstanding military debt is owed by countries that may well be unable to

Table 8
USSR: Estimated Grant Aid to the LDCs, 1970-82

Million US $

25X1

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Grants	310	45	50	225	580	265	535	395	320
Military	300	25	35	215	565	235	230	195	170
Economic	10	20	15	10	15	30	305	200	150

make scheduled repayments—for example, Ethiopia, South Yemen, North Yemen, Tanzania, and Mozambique. The USSR has already rescheduled the debt owed by many of these countries, thus increasing the cost of extending credits. To increase its chances of being repaid, the USSR has been willing to accept commodities in lieu of cash. For example, as part of its rescheduling agreement with Peru, the USSR agreed to accept deliveries in partial payment. LDC repayment of the $4 billion in economic debt owed to the USSR will not run into the same difficulty because most of the debt is owed by countries such as Iraq, Iran, Syria, and India, which are economically more sound than Moscow's military debtors, and because repayment is often tied to the delivery of commodities produced in Soviet-built enterprises.

25X1

A Political-Strategic Perspective

Because Moscow's motives for trade with the LDCs have a political and military as well as an economic basis, the value to the USSR of its economic relations with these countries should not be measured by economic criteria alone (see inset for LDC motives for trading with the USSR). Viable economic ties with the LDCs enhance Moscow's status as a superpower. In international forums, such as the UN Conference on Trade and Development (UNCTAD), the USSR and its allies emphasize the expanding nature of "socialist" trade with the developing countries and the importance of socialist aid. An active economic assistance program, although small and less concessionary than Western aid, further enhances the USSR's international status.

25X1

In addition, Moscow's economic ties—especially military trade and aid—have been the key to increasing its influence in the LDCs. Much of this influence has come from supporting regimes with anti-Western, anti-US stances such as Syria, Libya, Ethiopia, and Nicaragua. To the extent that the policies adopted by these countries weaken Western influence, Moscow benefits. In addition, several less developed countries have become dependent on Soviet arms supplies, and this dependence serves to increase Soviet leverage. Such leverage is often translated, for example, into pro-Soviet voting patterns in international organizations and into silence about events such as the invasion of Afghanistan and the downing of the Korean airliner.

25X1

Most LDC leaders, however, are extremely jealous of their national sovereignty. When their interests diverge from Soviet interests, Moscow usually has little influence. Much of Moscow's influence, moreover, depends on a continuation of regional instability, especially in the Middle East and Sub-Saharan Africa. With Moscow's economic ties narrowly focused on its military supply relationship, a lessening of regional tensions could reduce Soviet influence as clients divert resources to solving economic problems.

25X1

The most tangible noneconomic benefits to Moscow from economic ties in the LDCs are military. Soviet assistance to LDCs—especially military assistance—has helped secure access for Soviet forces to a number of military facilities. These port and air facilities are used in peacetime primarily by Soviet naval ships and aircraft and by the military transport planes and merchant ships that deliver military equipment and supplies to client states.

25X1

LDC Motives for Trade With the USSR

Although trade with the USSR accounts for a very small share of the total trade of most LDCs, it does provide a number of benefits to the LDCs. Most members of the Nonaligned Movement see trade with the USSR as a means of affirming their nonaligned status without exposing themselves to potential security threats through greater political and military contacts. Moreover, many newly independent countries—mainly in Africa—which established leftist, anti-Western regimes have turned to Moscow, at least initially, for support and guidance in setting up a socialist economy.

25X1

The USSR is viewed by many LDCs as a large potential market for their exports that should be developed to the fullest possible extent. The rapid increase in Soviet imports since the late 1970s has fueled expectations of even greater opportunities for expanding exports to the USSR in some countries. Argentina and Brazil, which have benefited the most from increased Soviet imports, are trying to expand their exports, particularly manufactured commodities, to the USSR. For many firms manufacturing goods of marginal quality in India, Syria, and Egypt, the Soviet market is one of the few foreign markets for their products.

25X1

Those countries that have received the most Soviet aid owe much of their public-sector economic development to this assistance. Over the years, the USSR has been willing to help in the construction of large, prestigious industrial projects such as steel mills and power stations that Western donors had deemed uneconomical. Even more countries have relied on Moscow for most of their military equipment, and many have received financial terms and models of a sophistication that they could not have obtained elsewhere.

25X1

The level of support available at overseas port facilities varies, and the Soviet Navy continues to rely heavily on its own auxiliaries for maintenance, repair, and logistic support. These facilities do, however, assist the Soviets in maintaining a naval presence in areas like the Mediterranean and Indian Ocean. Naval reconnaissance aircraft have been stationed—either continuously or intermittently—in a number of LDCs, including South Yemen, Ethiopia, Syria, Libya, and Angola. Their presence has improved Soviet capabilities to monitor the operations of Western forces. In addition, access to a variety of ports and airfields throughout the Third World would put the Soviets in a better position to support their clients during future crises. 25X1

In countries that have allowed an extensive Soviet presence—for example, Ethiopia and Angola—access generally was granted when the governments were threatened by rebellion or external forces and needed a strong and capable military patron. Continued Soviet access generally rests on the continuation of a relationship that fulfills the needs of the client states, and the Soviets appear to remain wary of reliance on facilities from which they may be ejected, as they were by Egypt between 1972 and 1976 and by Somalia in 1977. 25X1

Prospects

The character of the USSR's economic ties with the non-Communist less developed countries for the remainder of the 1980s is likely to be much the same as during the past decade. The Soviet military trade and aid program will remain the key to Soviet relations with the Third World. Moscow is likely to remain flexible with regard to financial arrangements where a deal hinges on concessions but will insist on the most favorable terms feasible on sales to its LDC customers. In addition, the USSR will probably offer increasingly sophisticated equipment to important arms customers such as Syria, India, Iraq, and Libya to maintain these markets. 25X1

In its civilian trade with the LDCs, we believe the USSR will continue to keep the current focus of its effort on the commercial aspects of its LDC ties, while the role of economic assistance offered on concessionary terms will continue to decline in importance. Soviet firms will probably compete increasingly against Western firms for lucrative contracts in the Middle East, North Africa, Latin America, and perhaps the Far East, offering attractive financing where necessary to improve their chances. Such projects are likely to include power facilities, pipeline construction, and metallurgy plants. The financial terms offered, however, will probably be less concessionary than in the past, with interest rates approaching market levels. We believe that Moscow will continue to use Western equipment and consortium arrangements to increase its chances to win lucrative contracts in the LDCs.

25X1

Economic assistance extended on concessionary terms, in our judgment, may not increase much if at all beyond current levels. The current problems hampering the growth of the Soviet economy make the leadership reluctant to increase its assistance to the LDCs. In his plenum speech in June 1983, former General Secretary Yuriy Andropov made specific reference to the limits of Soviet assistance. Several Soviet clients, including Angola and Nicaragua, have been advised to seek out Western donors for the economic assistance requested from Moscow. We believe that the USSR will continue to favor extending economic aid on concessionary terms for those projects that will be the most beneficial to the Soviet economy, primarily by guaranteeing long-term delivery of raw materials. Commodity credits, grants, and cash loans will probably remain small and continue to be limited mainly to important client states.

25X1

25X1

The USSR's ability to expand its economic ties with the LDCs and to increase its influence through this relationship, in our view, will be hindered by a number of factors. LDC disenchantment with Soviet economic assistance increased during the 1970s and is likely to continue throughout the 1980s. LDC recipients of Soviet assistance have criticized Moscow for the paucity of its assistance, poor quality of equipment and workmanship, and slow implementation of economic aid agreements. Recent economic and financial problems in many countries have heightened LDC dissatisfaction with the Soviet economic aid program. Socialist-oriented countries such as Guinea, Benin, and Congo, once close to the USSR, have become disillusioned with Moscow's assistance programs and are strengthening their Western ties. Even the Marxist regimes of Angola and Mozambique, which owe their existence to Soviet support in the mid-1970s, are disappointed in Soviet economic assistance and are seeking assistance in the West.

25X1

In addition, we believe that the USSR's potential for expanding its exports to the LDCs is limited. The generally poor quality of Soviet-manufactured goods constrains the array of civilian machinery and equipment salable to the LDCs to those few products that Moscow has already been marketing for some time. Thus, there probably are few new markets to be tapped. Only the USSR's exports of power equipment are likely to show much growth during the remainder of the decade. The financial crisis currently faced by many LDCs may make them more receptive to Soviet offers of countertrade as a means of reducing currency expenditures, but we believe that any increase in Soviet exports through such arrangements will be minimal because of LDC reluctance to purchase substandard Soviet equipment.

25X1

Even the prospect of substantial growth in Soviet military exports is dim. As mentioned earlier, several of Moscow's major arms clients have sought to diversify their sources of arms. With greater competition from other arms sellers and the current outlook for a stagnant or declining Third World arms market, an even more aggressive sales campaign will be required to expand sales beyond the present level. Moreover, financial problems facing most of the USSR's major arms customers will further hamper increased sales and earnings. Under these circumstances Moscow will probably have to offer better financial terms to LDC customers as well as agree to reschedule some debt payments, thus reducing the immediate economic payoff.

25X1

For these reasons, we believe that the volume of Soviet trade with the LDCs during the rest of the 1980s will increase slowly at best, and could be stagnant. The volume of imports, in particular, are unlikely to exceed the record level reached in 1981 unless substantial Soviet harvest shortfalls force Moscow to increase its agricultural imports. Soviet-LDC trade will, nevertheless, remain attractive to Moscow, and no retrenchment of the position in the LDCs is anticipated. The USSR in its economic relations with the LDCs for the rest of the decade is likely to strive to maintain its overall position rather than hope to improve it.[12]

25X1

[12] Sizable shifts in Soviet economic relations with individual countries could nonetheless occur, depending on changing political, economic, or military circumstances.

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Appendix A

USSR: Soft and Hard Currency LDC Trading Partners

Countries With Soft Currency Clearing Agreement Through 1983	
Afghanistan	Iran
Bangladesh	Pakistan
Egypt	Syria
India	Somalia (inactive)

Countries With Soft Currency Clearing Agreement Canceled Before 1983
Algeria (through 1979)
Cyprus (through 1976)
Ghana (through 1975)
Guinea (at least through 1980)
Mali (through 1977)
Morocco (through 1981)
Sri Lanka (through 1976)
Tunisia (through 1973)

Hard Currency LDC Trade Partners Throughout the 1970s

Africa	Latin America	Asia and Middle East
Angola	Argentina	Burma
Benin	Bolivia	Indonesia
Burundi	Brazil	Iraq
Cameroon	Chile	Jordan
Cape Verde Islands	Colombia	Kuwait
Central African Republic	Costa Rica	Lebanon
Congo	Dominican Republic	Macau
Ethiopia	Ecuador	Malaysia
Equatorial Guinea	El Salvador	Nepal
Gabon	Guatemala	Philippines
Gambia, The	Guyana	Saudi Arabia
Guinea-Bissau	Honduras	Singapore
Ivory Coast	Jamaica	Thailand
Kenya	Mexico	Yemen, Arab Republic
Liberia	Nicaragua	Yemen, People's Democratic Republic
Madagascar	Panama	
Malawi	Paraguay	
Mauritania	Peru	
Mauritius	Trinidad and Tobago	
Mozambique	Uruguay	
Niger	Venezuela	
Nigeria		
Rwanda		
Senegal		
Sierra Leone		
Sudan		
Tanzania		
Togo		
Uganda		
Upper Volta		
Zaire		
Zambia		

25X1

Appendix B

USSR: Selected Clearing Account Arrangements With the LDCs

Country	Currency of Account	Amount of Technical Credits	Method for Settling Imbalances Above Set Limits	Other Comments	Date of Agreement
Afghanistan	US dollars	2 million	Annual interest of 2 percent is charged on amounts over the technical credit. Creditor can demand payment at any time.		20 March 1974
Algeria	US dollars	1.5 million	Parties should take actions to eliminate the excess within three months. If the excess is not liquidated in this period, a mixed commission will be assembled to adopt measures to liquidate the imbalances.	Replaced by a new agreement that switched to hard currency payments in 1980.	4 November 1963
Bangladesh	British pounds	None	Any balance at the end of the year is to be liquidated in convertible currencies.	Specifies that contracts can require payment in convertible currencies.	31 March 1972
Egypt	British pounds	6 million (raised to 15 million in 1971)	Annual interest rate of 2 percent is charged on amount over technical credit. If the imbalance is not corrected within three months, payment in convertible currencies can be demanded.	Replaced an earlier agreement in which the accounting currency was Egyptian pounds.	23 June 1962
Guinea	US dollars	Set annually (600,000 in 1961)	Parties have the right to limit or suspend the granting of import and export licenses until the imbalance is corrected.	Believed to have been canceled as of 1981.	8 September 1960
India	Indian rupees	No limit set	To be settled by purchase of Indian or Soviet products within 12 months of the end of the agreement period or through some other arrangement.		10 December 1980
Iran	US dollars	2 million	An annual interest rate of 2 percent is charged on the excess. If the imbalance is not corrected in three months, the creditor can request payment in convertible currencies.		20 June 1964
Mali	Mali francs	500 million	Creditor has the right to suspend deliveries.	Replaced by an agreement that switched to hard currency payments in 1978.	18 March 1961
Morocco	Moroccan francs	500 million	Creditor has the right to suspend deliveries.	Replaced by an agreement that switched to hard currency payments in 1982.	19 April 1958

USSR: Selected Clearing Account Arrangements With the LDCs (continued)

Country	Currency of Account	Amount of Technical Credits	Method for Settling Imbalances Above Set Limits	Other Comments	Date of Agreement
Pakistan	Pakistani rupees	None	Imbalances can be converted into British pounds or into other convertible currencies on demand.		27 July 1956
Somalia	British pound	100,000 (raised to 630,000 in 1968)	At the end of every six months, half of the imbalance must be settled in freely convertible currencies within one month.	Currently believed to be inactive.	2 June 1961
Syria	British pound	500,000	Measures to be taken to eliminate the imbalances within three months after which the creditor can require payment in British pounds or other convertible currencies.		4 November 1966

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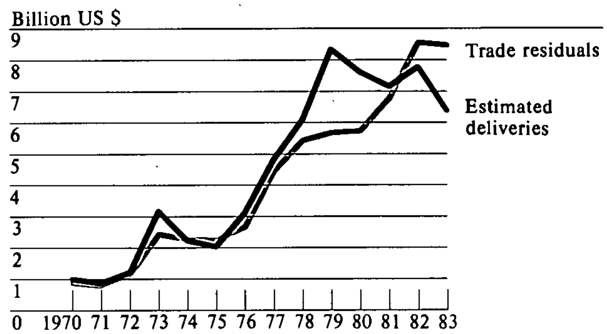
Appendix C

Estimating Military Exports: A Methodological Note

Estimates of Soviet military exports presented in this assessment are derived entirely from official Soviet trade statistics for the purposes of estimating trade flows. By systematically examining the trade data and comparing them with the official CIA-DIA estimates of military deliveries [redacted] we have been able to construct a methodology for estimating Soviet military exports. We believe the estimates produced accurately reflect the level of these exports valued at the actual sales price; that is, excluding the grant element due to price discounts.[13] These estimates more realistically allow for delivery of follow-on support materials such as spare parts and ordnance, which the current Intelligence Community estimates appear to be undervaluing.[14] [redacted]

Figure 7
Trends in Estimated Soviet Deliveries of Major Weapon Systems and Reported Soviet Trade Residuals, 1970-83



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Soviet statistics on trade with the LDCs contain large unexplained residual elements, mainly trade not specified by partner country and, within reported exports to individual countries, trade not specified by commodity. The growth of these residuals closely matches official Community estimates of the growth of military deliveries. About 47 percent of cumulative Soviet exports to the LDCs between 1975 and 1982 were not specified by country of destination. Within the trade reported by country, 13 percent of cumulative exports had no commodity designation. [redacted]

In addition, some categories of machinery and equipment have both civilian and military applications. While the trends in residual exports—both the overall and country residual—clearly match those of estimated military deliveries (see figure 7), the relationship between exports of these dual-purpose categories and military exports is more difficult to discern. Much of our examination of Soviet trade data, therefore, focused on comparing these exports with Community estimates of military deliveries by type of equipment from 1975 to 1980. [redacted] 25X1

We found that such dual-purpose commodities as helicopters, cranes, and trucks fit easily into Soviet trade data. In particular, Soviet-reported exports of air transport equipment and heavy vehicles are heavily concentrated among known Soviet arms customers (see table 9). When allowances are made for variations of delivery schedules, these exports can account for most estimated deliveries of trucks and helicopters. Additional deliveries of military equipment could also be contained in unspecified exports of machinery and equipment, but no clear correlation is discernible. In many instances where these unspecified exports have been sizable, the importing country either does not buy Soviet arms or the deliveries can be attributed to ongoing economic projects. [redacted] 25X1 25X1

Although our knowledge of Soviet foreign trade accounting is far from complete, the above findings suggest that the Soviets follow a definite pattern when recording military exports. We also know from a large body of collateral information that, while the Chief 25X1

[13] In contrast, official Intelligence Community estimates value trade at the official foreign trade price, thus including any grant element. In addition, these estimates are on a c.i.f. basis rather than on the f.o.b. basis of Soviet reported statistics. [redacted]

[14] The current Intelligence Community estimates add on 25 percent to the value of observed military equipment deliveries to account for unobserved deliveries of spare parts and other follow-on materials. Examination of a detailed set of Soviet-LDC contracts indicates this add-on factor is too low, and research is under way to update the current estimate [redacted]

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Table 9
USSR: Possible Trade in Military Equipment and Supplies, 1982-83

Million US $

	1982			1983		
	Country Residual	Air Transport	Trucks	Country Residual	Air Transport	Trucks
Total	**2,196**	**570**	**336**	**1,479**	**608**	**336**
Iraq	970	134	111	304	60	41
Iran	553	0	10	467	0	17
Libya	4	217	0	3	275	0
Syria	142	39	37	99	39	56
India	139	3	1	169	29	2
Peru	3	12	NEGL	2	2	NEGL
Algeria	84	0	5	90	1	0
Ethiopia	4	1	13	7	1	8
Afghanistan	39	127	63	65	57	43
Egypt	4	3	26	32	3	54
South Yemen	34	5	2	18	25	6
Angola	25	4	44	41	62	99
Mozambique	11	1	13	21	27	1
Other	184	24	11	161	27	9

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Engineering Directorate (GIU)—a component of the State Committee for Foreign Economic Relations—is the organization largely responsible for military sales, other foreign trade organizations (FTOs), in particular Avtoeksport and Aviaeksport, are involved in selling equipment to LDC military establishments. Because these organizations sell the same or similar equipment to civilian organizations, they probably do not make distinctions between the military and civilian components of their sales, and thus trade would be reported on a country-by-country basis. Soviet deliveries of major military equipment such as tanks, fighters, and missiles, which are handled through the GIU, appear to fall entirely outside reported country trade. How the supply of ordnance and other support materials is accounted for in the Soviet system is more difficult to determine. Considering the large country residuals of some of Moscow's major arms clients, however, it is possible that much of these exports fall within the reported country trade.

Using the above findings, we have constructed a methodology that sums up both the overall and country residuals, all air transport equipment exports, and half of Soviet exports of heavy vehicles and related spare parts to come up with what we believe to be a reasonable estimate of Soviet military exports (see table 10). Limiting ourselves to these categories avoids the inclusion of categories that are less clearly associated with military sales and offsets the inclusion of some civilian trade that our estimates undoubtedly capture. In any event, our estimate for cumulative exports of $28.4 billion in 1975-80 is only $1 billion less than the maximum amount we believe Soviet trade data could support. 25X1

Our findings are supported by a computer model that derives estimated values for follow-on support based on maintenance practices and ordnance requirements of Soviet armed forces, adjusted for individual LDC rates of usage and operation of equipment inventories. This methodology substantially increased the allowance for unobserved deliveries of support items from 25 percent of observed deliveries of major weapons systems to nearly 50 percent. Consequently, much higher estimates are generated, and these are within 5 percent of the estimates derived from Soviet trade statistics once adjustments are made for shipping costs and Soviet grant aid (see table 11). 25X1

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Table 10
USSR: Distribution by Trade Category of Estimated Military Exports, 1970-83

Million US $

	Total	Overall Residual	Country Residual	Air Transport	Trucks
1970	**1,048**	792	159	61	36
1971	**987**	694	164	75	54
1972	**1,369**	1,066	154	87	62
1973	**2,700**	2,140	362	128	70
1974	**2,466**	2,025	309	70	62
1975	**2,516**	1,891	411	125	89
1976	**2,942**	2,316	420	104	102
1977	**4,810**	3,890	692	110	118
1978	**5,860**	4,216	1,285	243 [a]	116
1979	**6,126**	4,356	1,389 [b]	279 [a]	102
1980	**6,149**	4,763	967	300	119
1981	**7,437**	4,935	1,912	484	106
1982	**9,358**	6,424	2,196	570	168
1983	**9,307**	7,052	1,479	608	168

[a] Includes an estimated $10 million and $50 million for exports of air transport equipment to Libya in 1978 and 1979, respectively.
[b] Excludes an estimated $50 million for oil exports to Ethiopia in 1979.

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Table 11
USSR: Comparison of Estimates of Arms Exports to the LDCs, 1977-81

Million US $

	Total	1977	1978	1979	1980	1981
Trade data estimate	**34,867**	5,507	7,010	6,977	6,988	8,375
Trade value (c.i.f.)	**33,421**	5,291	6,446	6,739	6,764	8,181
Grants	**1,446**	216	564	238	234	194
Computer-generated estimate	**36,729**	5,471	6,156	8,957	7,016	9,129

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Estimates derived from Soviet trade data allow for greater precision on an annual basis than do the computer-generated estimates. On a year-to-year basis these two estimates differed by over $1 billion, with the computer-generated estimates being both higher and lower than the amount of trade supported in the trade data. Such variations are not surprising given the difficulty in pinpointing the actual delivery date of military equipment, particularly of the unobserved follow-on elements. Estimates from Soviet data, while providing annual estimates for total military exports, cannot provide such essential information as the level of exports to individual countries and the types of equipment being delivered. Thus, the two methodologies complement each other in improving estimates of Soviet arms exports. 25X1

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Appendix D

Methodology for Estimating Soviet-LDC Financial Flows and LDC Debt to the USSR

Official trade statistics form the starting point for estimating the USSR's balance of payments with the non-Communist LDCs. Although the Soviet data are incomplete in coverage with respect to both partner and commodity trade, they are the most comprehensive statistics available. From them we have derived our estimates of Soviet earnings from shipping and interest payments, credit drawings, repayments, and outstanding LDC debt to the USSR. [redacted]

Estimates of financial flows are limited to those transactions directly relating to Soviet-LDC trade. Items such as expenditures for upkeep of embassies, consulates, and official delegations, tourism, port fees, and earnings from Soviet-owned companies operating in the Third World—mainly fishing enterprises—are excluded from our calculations. We have also not attempted to adjust our estimates to take into account exchange rate fluctuations, which would affect the dollar value of debt, repayment, and interest earnings. Most state credits the USSR has extended for economic and military aid have been ruble denominated, so it is likely that much of the debt is valued in ruble terms, and repayments are made in a convertible currency or through a clearing account based on the ruble exchange rate at the time of the payment. Moreover, although some credits extended are now often denominated in convertible currencies, these credits are not necessarily valued in dollars. Because the dollar exchange rate vis-a-vis other convertible currencies and the ruble has fluctuated considerably in the last 10 years, our estimates of repayments and debt based on the dollar values of credits drawn are somewhat distorted. The general trends and magnitude of LDC debt and repayment, however, remain unaffected. [redacted]

Estimating Flows From Military Sales

Our estimates of credit drawings from Soviet arms exports to the LDCs are based on available information on the credit arrangements in existence with individual countries. To estimate these credits we first distributed our estimates of total military exports by importing country on the basis of observed military deliveries. We also assumed that Iraq, Libya, Iran, and Syria pay for purchases upon delivery. Our information about financial arrangements between the USSR and these countries suggest that this has been generally true, at least in the last several years.[15] We have, however, taken into account reported credits extended to Syria on deliveries made in late 1982. 25X1
[redacted] 25X1

For military deliveries to other countries, we have assumed that credits are extended only for purchases of major weapon systems. Thus our estimates for military exports are adjusted to exclude deliveries of spare parts and other follow-on support materials and downpayments to reach our estimate of credits extended. These credits are assumed to carry 10-year repayment terms with payment beginning one year after delivery, unless information to the contrary is available, as is the case with India and Ethiopia. We further assume that all payments are made on time unless: (1) payments are known to have been rescheduled or (2) as in the case of Egypt, a unilateral moratorium has been declared on repayment of a country's military debt to the USSR. The repayment schedule also begins with repayment of an estimated $2 billion in outstanding debt owed to the USSR from credits drawn prior to 1970. [redacted] 25X1

[15] This assumption is probably simplistic, however, because it ignores any downpayments made on purchases to be delivered over several years. In addition, [redacted] payment schedules do not necessarily match delivery schedules. There is, however, no way to adjust for such differences between payments and deliveries. In any event, these differences even out within a short period of time. [redacted] 25X1 25X1 25X1 25X1 25X1 25X1

Estimated Flows From Economic Assistance

Estimates of credit drawings for Soviet economic assistance to the LDCs were calculated in much the same manner as military assistance. Because information on Soviet economic aid projects is more readily available, we were able to compare project aid extended with detailed Soviet reporting of exports to individual LDCs. A close examination of Soviet trade statistics ensures that estimates of credit drawings by individual countries reflect Soviet exports of machinery and equipment clearly being provided under specific aid and credit agreements. We have no way of capturing additional supplier credits provided by Soviet FTOs on the sale of machinery and equipment not associated with specific aid agreements, except in a few instances where reporting is available—such as for India. Consequently, our estimates of credits drawn probably are low. We do not believe, however, that the amount of such supplier credits would exceed $50 million, and, since the terms would be shorter (between three and eight years for repayment), the impact on net flows for civilian trade would be relatively small. [redacted]

Repayments of economic credits were calculated in the same manner as repayments of military credits. Most credits are assumed to carry standard terms of 10 years with repayments beginning one year after delivery. For some of Moscow's largest aid recipients such as India, Syria, and Afghanistan, we assumed somewhat longer average repayment periods—usually 12 years. Because many Soviet aid agreements for large industrial projects stipulate payments to begin upon completion of the project, we have extended the grace periods to two or three years for countries where most of the aid consists of such large projects. Finally, we estimated repayments on credits drawn prior to 1970 on the basis of estimated deliveries of economic aid between 1956 and 1969. With these adjustments and assumptions, we believe we have been able to construct a repayments schedule that reflects the trends in repayments. [redacted]

Calculating Debt and Interest Payments

Once estimates for credit drawings and repayment schedules were constructed, LDC debt and interest payments to the USSR could be calculated. Starting with an estimated debt of about $4.3 billion at the beginning of 1970, new credits were added and repayments subtracted from the outstanding debt to construct annual yearend debt. Interest payments in any given year were calculated from the midpoint between the debt at the end of that year and the debt at the end of the previous year. We assumed an interest rate of 2.5 percent on most debt, although for the period since 1980 interest rates on hard currency debt were increased to 3 percent for economic debt to take into account the higher interest rates generally being charged on credits extended to these countries since the mid-1970s. We further assumed that no interest was being paid on debt that had been rescheduled or on the grain credits extended to India and Bangladesh in the early 1970s, which were repaid in kind. [redacted] 25X1

Checking the Estimates

To check our estimates of LDC payments to the USSR, we have examined [redacted] information on LDC financial transactions with Soviet trade organizations and independent estimates of debt owed by individual LDCs to the USSR. [redacted] financial transactions between the LDCs and the USSR shows that the LDCs transferred or were requested to transfer $3.2 billion to the USSR in 1982 (see table 12). The most substantial payments were made by Moscow's largest arms customers, including $1.6 billion in payments by Iraq. Only about $200 million—7 percent of the total transactions—were requested with no payment actually observed. Generally, these requests were concentrated among those countries in severe financial straits such as Angola, Mozambique, and Guinea. [redacted]

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In addition, Moscow received about $1.6 billion in oil from Libya in lieu of cash payments, mostly for sales of military goods and services. Moreover, although only relatively small Syrian transfers of $138 million were observed, collateral reporting shows that Syria received substantial funding—about $1.4 billion—from other Arab countries to cover its military purchases in 1982. Syria may also have diverted some of

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Table 12 *Thousand US $*
USSR: Payments From the LDCs in 1982

	Total	Actual Payments	Requested Payments
Afghanistan	**5,403**	5,403	
Algeria	**445,995**	445,504	491
Angola	**52,037**	7,168	44,869
Bangladesh	**7,897**	7,258	639
Benin	**4,127**	805	3,322
Equatorial Guinea	**245**	203	42
Congo	**413**		413
Egypt	**19,322**	19,322	
Guinea	**46,033**		46,033
Mali	**490**		490
India	**96,987**	96,987	
Iran	**22,689**	22,689	
Iraq	**1,587,529**	1,587,401	128
Kuwait	**123,125**	123,125	
Libya	**362,045**	362,045	
Mozambique	**21,049**	386	20,663
Pakistan	**42,720**	24,007	18,713
Peru	**54,657**	40,647	14,010
Sudan	**1,347**	1,347	
South Yemen	**456**	93	363
Syria	**138,220**	129,316	8,904
Ethiopia	**7,418**	1,614	5,804
Zambia	**18,025**	18,025	
Cameroon	**250**		250
Indonesia	**30,383**		30,383
Nigeria	**18,883**	1,200	17,683
Jordan [a]	**131**	131	
Morocco	**624**		624
Nepal	**12**		12
Nicaragua	**8,621**	8	8,613
Tanzania	**498**	498	
Yemen Arab Republic	**33,240**	33,240	
Burundi	**1,228**	1,228	
Sao Tome Principe	**199**	199	
Sri Lanka	**109**	109	
Total	**3,152,407**	**2,929,958**	**222,449**

[a] Letters of credit valued at $144 million were opened during 1982 and may indicate that sizable unobserved payments were made during the year.

[redacted] 25X1

the $575 million in Arab funds designated for economic development to military purchases. [redacted] 25X1 [redacted] Moscow received a 25X1 minimum of $6 billion from the LDCs in 1982, an amount equal to about 70 percent of our estimates of Soviet earnings from military sales and economic assistance programs. Inasmuch as these sources do not provide complete coverage of LDC payments to the USSR and exclude repayments of economic credits made in commodities, they provide convincing evidence that our estimates of Soviet earnings from LDC trade are reasonably accurate. [redacted] 25X1

We also compared our estimates of outstanding debt owed by the LDCs to the USSR with independent estimates of debt owed by individual LDCs. The sum of these estimates, derived from a variety of sources, indicates that LDC debt was about $9 billion in the early 1980s. These estimates exclude debt owed by important Soviet customers, such as military debt owed by India, South Yemen, and Afghanistan, and thus reflect only a portion of total LDC debt owed to the USSR. We estimate that unreported debt owed by Moscow's major aid recipients could total about $7.5 billion, a figure, which, when combined with the independent debt estimates for other countries, would bring this estimate of total debt to within 10 percent of our estimate. [redacted] 25X1