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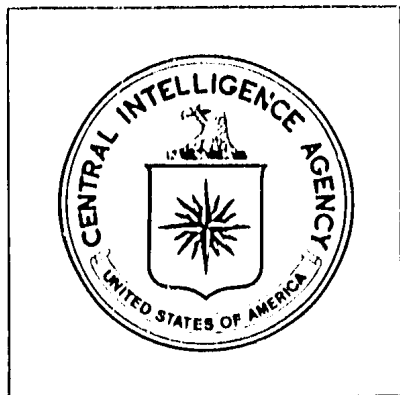
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**Secret**

NOFORN

(See inside cover)



*Communist Aid and Trade Activities in  
Less Developed Countries, September 1975*

**Secret**

ER RP 75-31

November 1975

NATIONAL SECURITY INFORMATION  
Unauthorized Disclosure Subject to Criminal Sanctions

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CONTENTS AND SUMMARY OF EVENTS  
(September 1975)

Highlights

- Libya became the second LDC to receive the Soviet TU-22 medium-range bomber.
- The USSR pledged \$18 million in new credits for housing in Iran.
- China declined to participate in the long-discussed \$365 million Manantali Dam in Mali.
- Peking has renewed a \$50 million development credit to Chile.
- Zambia began shipping copper over the recently completed Chinese-built Tan-Zam Railroad.

Articles

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COMMUNIST AID AND TRADE ACTIVITIES  
IN LESS DEVELOPED COUNTRIES  
SEPTEMBER 1975

First Zambian Copper Shipments on the Tan-Zam Railroad\*

In September, Zambia began diverting some west-bound copper shipments to the Tanzanian port of Dar es Salaam over the Chinese-built Tan-Zam Railroad, although the rail line is not scheduled to begin normal commercial operation until early 1976. Zambia's move came after rebel activity caused the suspension of service on the Benguela rail line through Angola, a route over which half of Zambia's export traffic moves. Port congestion at Dar es Salaam will limit the diversion of large amounts of traffic over the Tan-Zam Railroad for some time, but the availability of interim service on the line points up the potential importance of the project as an alternative to Zambia's existing transport arrangements.

Peking undertook this massive project in 1970 after conducting extensive surveys. It financed the project with a \$402 million credit that covered construction of the rail line and ancillary facilities, the purchase of commodities to finance local costs, and the procurement of some Chinese rolling stock. Repayments on the 30-year loan are to be made equally by Tanzania and Zambia with income from rail operations. An estimated 16,000 Chinese personnel were present in Tanzania and Zambia at the height of construction.

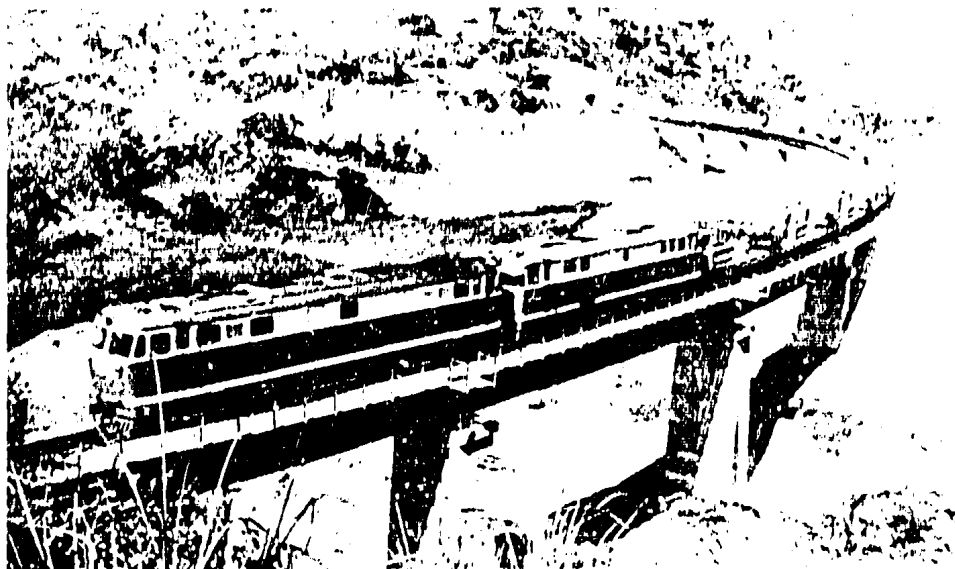
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\* The classification of this article is Confidential.

Note: The substance of this publication has been coordinated with the Bureau of Intelligence and Research of the Department of State, with the Defense Intelligence Agency, and with the Agency for International Development. Comments and queries regarding this publication are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 5291.

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Bridges on the Mlimba-Makumbako section to the Tan-Zam Railroad.

The Track Record

Tracklaying on the 1,150-mile rail line was completed in June 1975, a year ahead of schedule. Western experts assess the railroad as high quality in design and execution.

When the railroad is formally turned over to the Tanzanian and Zambian governments some time in 1976, it will be operating at an initial annual capacity of 1 million tons each way. This capacity will accommodate two-thirds of Tanzania's total transport requirements and 50% of Zambia's, including three-fourths of its copper exports. At full capacity, 7 million tons to be reached in 1978, the railroad will meet all Zambian and Tanzanian rail transport needs. About 300 Chinese personnel are expected to remain through 1978 to provide technical services. Repayment of the loan will not impose a hardship on the two countries. An operating surplus of \$27 million annually is projected by 1983, when repayments totaling \$14 million annually are scheduled to begin.

Potential Benefits

The railroad is expected to have spinoff economic and social benefits. For Tanzania, it will stimulate agricultural development in the western region and provide access to coal and iron ore reserves in the Southern Highlands. For its part, China recently extended a \$75 million loan for exploitation of iron ore deposits at Chunya and coal deposits at Tukuyu. A feeder line from the deposit sites to the main line will also be financed under this credit.

The Tan-Zam Railroad will provide landlocked Zambia with a major alternative foreign trade transport option and will increase access to northern Zambia, where there is some opportunity to expand cattle raising, dairy farming, and production of coffee, tea, corn, and rice. China recently extended a \$50 million credit to Zambia for rural development projects. Zambia also could exploit manganese and copper ore deposits near Mkushi,



which have remained undeveloped because essential transportation facilities were lacking (see the map).

#### Soviet Aid to LDC Oil and Gas Industries

Soviet aid to LDC oil and gas industries -- until now about 10% of Moscow's total aid program -- probably will decline over the next few years as major clients turn to the West for more advanced technology. Moscow's most important contribution will be to LDCs with limited output potential that are unable or unwilling to obtain Western equipment, technical services, and training. (Secret)

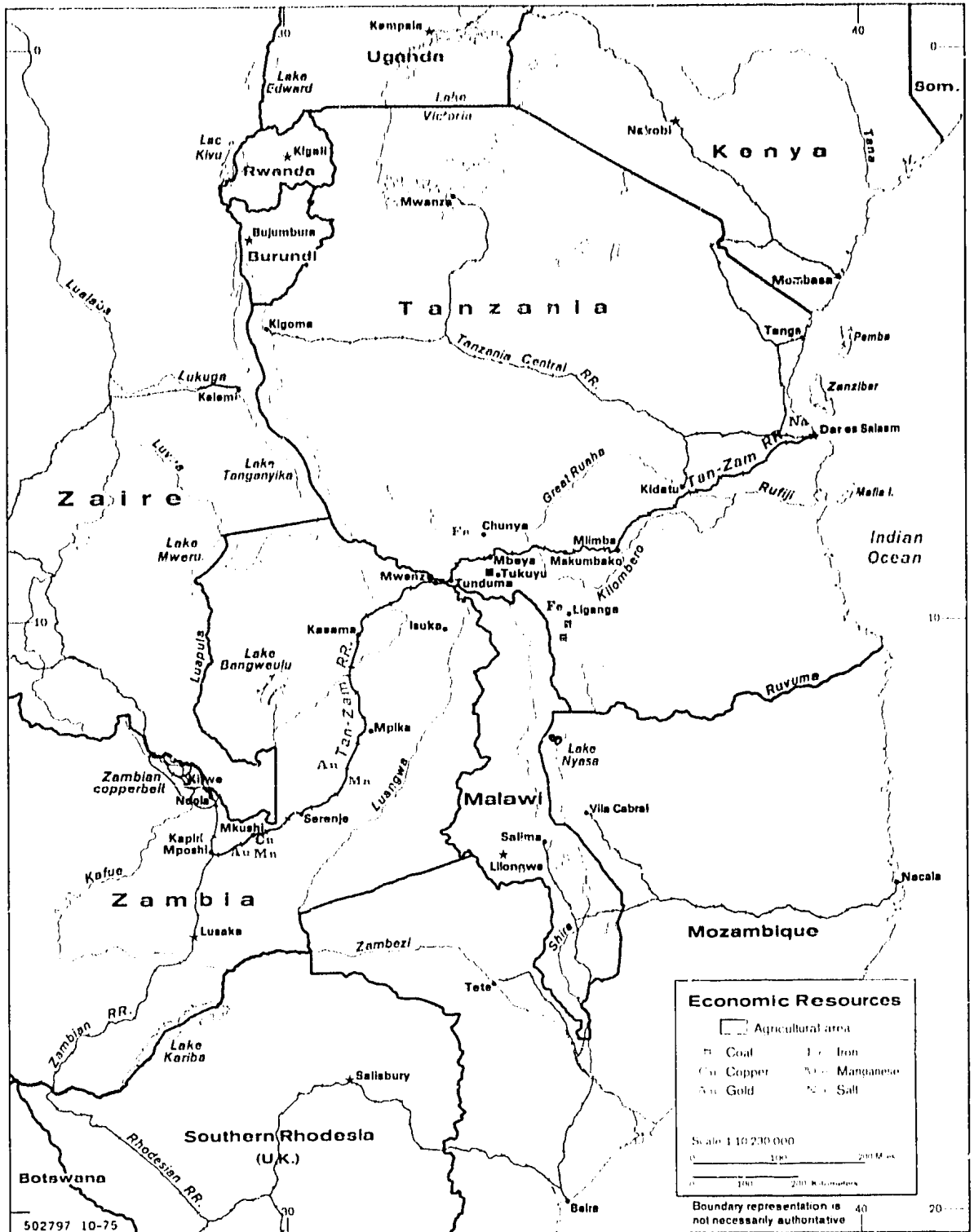
#### LDCs Profit from the Aid

The USSR originally provided aid to national oil industries in LDCs as part of its overall effort to expand economic relations with the Third World. In the mid-1960s Moscow began to focus this aid on a few Middle Eastern and South Asian countries. By taking repayment in oil and gas, Moscow hoped to expand its ability to meet Communist countries' growing energy needs. Out of the \$1 billion in assistance provided since 1956, three-quarters went to five countries -- Iraq, Iran, Syria, Afghanistan, and India. Smaller scale aid also was provided to 18 other countries. The USSR constructed refineries in Ethiopia, Egypt, and Turkey and built and staffed training institutes in Algeria and Nigeria. Some 2,500 Soviet technicians have been assigned to LDC gas and oil industries in recent years; about 1,100 LDC personnel have received training in petroleum technology in the USSR. (Secret)

Soviet oil development aid has filled an important gap for many LDCs, particularly the poorer nations. It came at a time when Western oil companies were unwilling for political or economic reasons to invest in these countries. Now, however, the major Soviet clients are finding that they need more sophisticated Western technology to accelerate their development. (Secret)

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### The Tan-Zam Railroad



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In Syria, now a net oil exporter, Soviet aid has been almost entirely responsible for the development of crude capacity. Damascus recently announced, however, that Soviet exploration will be terminated in favor of Western participation. (For Official Use Only)

In India, the USSR provided the impetus for a state-owned oil industry. Production from Soviet-developed fields now accounts for one-half of Indian output, and Soviet-built refineries satisfy one-third of Indian product needs. Although New Delhi has been satisfied with Soviet onshore development, it is turning to US firms for the larger offshore effort. (For Official Use Only)

In Iraq, although Soviet-aided output contributes less than 10% to total production, Soviet assistance filled an important void in 1969. Moscow provided aid after private companies refused to expand output in the wake of nationalization. The USSR also purchased Iraqi crude after Baghdad's traditional market outlets were threatened. Since the October war, Soviet purchases have dropped 65% because of Baghdad's insistence on receiving world market prices (Secret NoFORN)

In Afghanistan and Iran, the USSR was largely responsible for creating national gas industries -- in the Iranian case, by establishing a market for gas previously flared. The two countries are shipping natural gas as payment for economic and military aid. (For Official Use Only)

#### Soviet Benefits Persist

The USSR will continue to profit from repayments in kind for its assistance to LDCs. In 1975, Iran and Afghanistan will provide 460 billion cubic feet of natural gas valued at \$240 million to the USSR. These receipts facilitate Soviet gas exports to Western Europe for which Moscow receives

hard currency and prices nearly twice what it pays the LDC suppliers. Moscow also benefits from repayments in oil. Iraq is expected to provide less than 20,000 b/d of crude oil, valued at under \$80 million, as repayments during 1975, about 20% of total Soviet oil imports from the Middle East this year. The USSR has been diverting increasing shares of this oil to fulfill contracts with LDCs, freeing an equivalent amount of Soviet-produced oil for shipment to cash customers in Western Europe. (Secret NoFORN)

Communist Arms Transfers to Major Arab Countries in 1975\*

Communist countries delivered over \$600 million in arms to major Arab countries in the first nine months of 1975 (see Table 1). For the full year the amount is likely to reach the \$1 billion 1974 level.

Libya has emerged as the largest Arab recipient of Communist arms. From January through September 1975, Libya's share was slightly above the combined total for Iraq and Syria. Shipments to Egypt continued at a high rate until midyear, when apparently they were cut off.

Table 1  
Value of Communist Equipment Delivered to Major Arab States

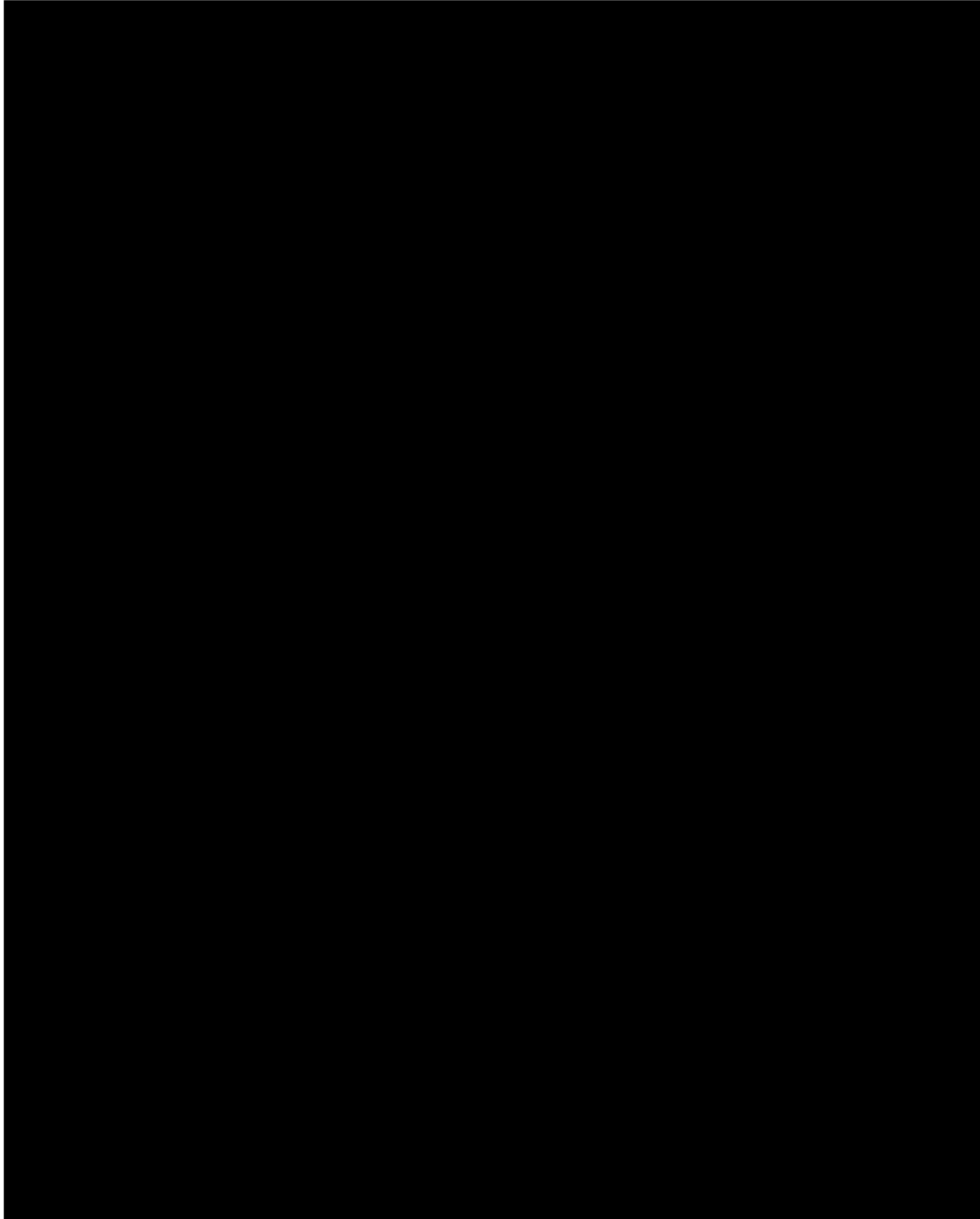
	Million US \$	
	1 Jan - 30 Sep 1975	1974
Total	610	967
Egypt	155	91
Iraq	125	337
Libya	230	90
Syria	100	449

Libya

The \$230 million worth of equipment received by Libya reflects deliveries in response to the nearly \$840 million in cash orders placed since 1 January 1974. These purchases are designed to bring Libya's military

\* The classification of this article in Secret NoFORN.

inventories into line with those of Syria and Egypt. Libya is receiving MIG-23 jet fighters and TU-22 medium-range bombers (see Table 2).



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Libya hopes a large arsenal of Communist weaponry will enhance its prestige among Arab states. It will allow Libya to use its inventory to replace equipment lost by Arab combatants should new hostilities break out in the Middle East. Soviet equipment clearly will increase Libya's depend-

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ence on the USSR for technical and other support personnel. The few Soviet military instructors left in Egypt are being transferred to Libya as their contracts in Egypt expire.

### Iraq and Syria

Reduced Communist shipments to both Syria and Iraq in 1975 largely reflect the end of the post-October 1973 War deliveries. Damascus has replaced its war losses and has expanded and upgraded air and ground forces units. Baghdad's need for Communist equipment and spare parts also declined after settlement of the Kurdish conflict early this year. Both countries must now absorb the military equipment they have received. Syria -- the major object of Soviet military supply activity since the October War -- will have to assimilate more than \$1 billion worth of military hardware; Iraq, \$700 million from Communist countries and \$1 billion in Western and Yugoslav arms ordered in the past two years.

Deliveries of \$125 million to Iraq and \$100 million to Syria in 1975 include minesweepers and Osa II class guided missile patrol boats for Iraq and a Petya class destroyer escort for Syria. Negotiations with Moscow also began for two more squadrons of MIG-23s for Syria, valued at about \$100 million.

### Egypt

25X1B [REDACTED] Soviet military deliveries to Egypt apparently were halted at midyear. Soviet aircraft, including Egypt's first MIG-23s, had been transferred before that time under a 1973 contract. The value of 1975 deliveries was \$155 million, or nearly twice last year's level. Egypt may have paid cash for both the 1974 and 1975 shipments. The drop off in Moscow's military support to Cairo has led to intensified negotiations with Western military suppliers.

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OTHER ACTIVITIES

Economic

Africa

General. The Organization of Senegal River States has announced that a combination of Western and OPEC countries and multilateral institutions will finance the \$365 million Manantali Dam project, ending speculation that China would construct the project. (Unclassified)

Algeria. Bulgaria is to finance and construct a dam near Algiers to irrigate 100,000 acres and is studying participation in two other dams. The activity probably will be financed under the \$40 million credit provided in 1970. (Unclassified)

Gabon. A team of Romanian geologists arrived in Gabon to study development of local uranium deposits. (Unclassified)

Ghana. A Chinese trade delegation arrived in Accra on 18 September for two weeks of discussion on expanding trade relations with Ghana. The delegation previously had visited Nigeria. (Unclassified)

Ghana and East Germany are negotiating a trade agreement under which Ghana will sell cocoa at below the world market price in return for \$8.5 million worth of East German equipment for developing facilities to produce chocolate and chocolate beverages. (Secret Noform)

A high-level Ghanaian economic delegation was in Moscow negotiating the resumption of Soviet aid projects. A contract was signed to build a prefabricated housing plant. (Unclassified)

Morocco. In late September, a Moroccan delegation departed for Moscow to conclude negotiations on Soviet development of the Meskale

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phosphate deposits, under discussion for more than a year. (Confidential)

Niger. The USSR and Niger signed an agreement on economic and technical cooperation on 12 September. The terms were not announced. (Unclassified)

Nigeria. Nigeria and Bulgaria signed a long-term trade agreement to exchange Nigerian raw materials for Bulgarian light industrial equipment and chemicals. The agreement is the latest in a series of pacts designed to upgrade Nigeria's commercial relations with Eastern Europe. Late last year, long-term agreements were signed with Czechoslovakia and East Germany. (Unclassified)

Somalia. A Chinese trade delegation concluded a \$2.5 million contract to purchase hides and skins from Somalia. China apparently will pay in hard currency. (Unclassified)

Zaire. The PRC signed contracts to purchase an undisclosed quantity of Zairian copper in 1976. (Unclassified)

#### East Asia

Laos. During recent talks in Vientiane, Hungary agreed to provide technical assistance to agriculture. The two sides also agreed on methods to expedite Hungarian shipments of textiles, food, and medical supplies being provided as emergency aid. (Unclassified)

Malaysia. The Malaysian Minister of Trade and Industry was in Bucharest during September presumably to discuss Romanian participation in development projects. (Unclassified)

Papua New Guinea. A Chinese trade delegation agreed to buy \$3.5 million worth of cocoa and copper from the newly independent government

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of Papua New Guinea. The two countries have been studying trade possibilities since early this year. (Unclassified)

Philippines. During September, Philippine officials signed agreements with Bulgaria and Romania to facilitate trade exchanges under agreements signed earlier this year. (Unclassified)

### Europe

Spain. Spain and the USSR signed an agreement to set up a joint company capitalized at about \$500,000 to service Soviet ships, presumably fishing vessels. Spain already provides the Soviet fleet with extensive servicing facilities in the Canary Islands. The USSR purchased its first Spanish fishing vessel in August. (Unclassified)

### Latin America

Argentina. Two Romanian officials arrived in Argentina on 4 September for talks on constructing a coke oven plant. The total cost of the 240,000 ton plant is estimated at \$30 million. Romania will supply equipment under a \$100 million credit signed last year. (Unclassified)

Bolivia. On 16 September the Czech-built antimony smelter at Vinto began operations. Czechoslovakia extended \$3.2 million in long-term credits in 1971 to cover equipment for the project. Early this year, Prague signed a \$1.5 million contract for a second aid project in Bolivia, a ferroalloy plant. (Unclassified)

Chile. A Chilean delegation to Peking negotiated renewal of a \$50 million three-year credit provided to the Allende government in 1972. The loan will be used to purchase industrial plants from China. Peking also agreed to increase its purchases of copper and nitrates in 1976 and possibly to exchange petroleum for Chilean iron ore. (Secret Noform)

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Ecuador. East Germany will exchange educational equipment worth \$3 million for Ecuadorean bananas under an agreement signed on 15 September. The sale is in addition to annual East German imports of 150,000 tons. (Unclassified)

Guyana. A high-level official will travel to China in mid-October to discuss trade and aid implementation problems. Georgetown is dissatisfied with the rate of construction on Chinese aid projects as well as prices charged for equipment used to finance local costs. Guyana also hopes to negotiate additional sales of sugar and bauxite. (Confidential)

Mexico. Mexico and the PRC concluded a five year technical and scientific cooperation agreement on 10 September. (Unclassified)

Peru. During September, Romania made a test purchase of 35,000 tons of iron ore from the recently nationalized Marcona mines. The availability of additional amounts of ore for sale to Romania depends on the outcome of pending Peruvian negotiations with Marcona's former US owners. (Unclassified)

#### Near East and South Asia

Afghanistan. The USSR recently agreed to begin electric power surveys in northern Afghanistan under an open ended credit agreement signed early in 1975. The USSR has tentatively agreed to assist in the construction of several major hydroelectric power generating and transmission projects in Afghanistan over the next 10 years. (Unclassified)

Cyprus. Cyprus has invited Bulgaria to bid on construction of a 20,000 ton capacity desalination plant. Bulgaria probably has been asked to finance the project under long-term credits (Secret NoFORN)

India. Beginning in 1976, India will provide and install equipment for a 640,000 ton capacity coke oven at the Danube Iron Works in Hungary. This

is India's first major steel construction contract outside its national boundaries. Much of the Indian firm's previous experience stems from work on Soviet-aided steel mills at Bhilai and Bokaro. (Confidential)

On 16 September, India and the USSR signed contracts to study a 3 million ton open cast mine at Singrauli and two projects using experimental mining techniques at Ranigang. This is the first activity on a Soviet proposal to finance the development of India's coal resources under a 1966 trade credit. (Unclassified)

Iran. On 14 September, Bulgaria and Iran agreed to set up a joint economic commission to expand mutual trade and economic cooperation. Only small amounts of Sofia's \$20 million in aid to Iran have been used to date. The two sides also held talks on establishing a joint transport company. (Unclassified)

Iran and Poland plan to expand annual trade by 25% to \$100 million in 1976. The new protocol signed on 17 September calls for increased sales of Iranian light manufactures in exchange for Polish agricultural goods, machinery, and chemicals. (Unclassified)

Moscow apparently agreed in July to provide \$18 million in new aid to build housing at Ahwaz in southern Iran, bringing total Soviet aid to that country to \$800 million. The new credit, which is repayable over seven years, covers the foreign exchange costs of the \$36 million project. (Secret Noform)

Iraq. On 14 September, Iraq and the USSR signed contracts to establish two vocational training centers for the chemical, petrochemical, mechanical, and mineral industries in Iraq. The centers, to accommodate about 1,200 students, will cost \$25 million and will be completed by 1978. The USSR has contracted to build a minimum of 10 training complexes in Iraq. (Unclassified)

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Kuwait. The Kuwait Investment Company is handling the sale of a \$60 million Hungarian bond issue to Kuwaiti subscribers. In 1974, Kuwait managed a similar transaction for \$40 million on Hungary's behalf. In addition, an agreement for the sale of 2 million barrels of Kuwaiti crude oil, valued at \$20 million at market prices, is to be signed with Hungary soon. (Unclassified)

Pakistan. China will conduct feasibility studies for soda ash, sulfuric acid, and ceramics factories in northern Pakistan. Chinese assistance in constructing the plants presumably would come under a \$200 million credit extended in 1970. (Unclassified)

Turkey. Turkey and Poland signed a small credit agreement in September. The \$2.8 million loan will cover the purchase of road construction equipment to be delivered by 1978. The credit is repayable over 6 years, including 2½ year's grace, and carries 7% interest. (Unclassified)

Turkey recently signed new trade agreements with Czechoslovakia and East Germany calling for all transactions to be conducted on a hard currency basis. Planned levels of trade for the coming year were not announced. Last year's protocols called for total trade of \$90 million with the two countries. (Unclassified)

The Turkish and Bulgarian foreign ministers met early in September to discuss a proposal to institute regional cooperation among the Balkan states. Later in the month, a meeting of the joint Turkish-Bulgarian economic commission ended with the conclusion of a long-term economic, technical, industrial, and scientific cooperation agreement. The major area of Turkish-Bulgarian economic cooperation at present is distribution of electricity. Northwestern Turkey recently was linked to a Bulgarian power transmission system. (Unclassified)

A group of 15 Chinese technicians is preparing to return home after completing a textile mill under a commercial contract with a private

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Turkish firm. In September 1974, Peking agreed to construct and equip the mill at Karatas, Turkey, for an undisclosed sum. (Secret Noform)

Military

Africa

Guinea-Bissau. The first known Soviet military specialists for Guinea-Bissau arrived in August, probably in connection with the recent delivery of two MIG-21s under a 1974 agreement. (Secret Noform)

Somalia. The USSR delivered an Osa II class patrol boat armed with Styx missiles to Somalia in September. Agreement for the ship probably was reached last December during a Soviet delegation's visit to Somalia. About 50 Somali naval personnel began training in the Soviet Union in January. (Confidential)

Zaire. The PRC is continuing deliveries of T-62 tanks to Zaire under a December 1974 agreement. By the end of August, [REDACTED] contracted 25X1B for shipment had arrived. (Confidential)

Latin America

25X1B

Cuba. The arrival [REDACTED] MIG-21s in Cuba during September brings Soviet deliveries of this aircraft this year [REDACTED] nearly matching the total 25X1B for the previous three years. The Cuban inventory of MIG-21s now stands at 25X1B more [REDACTED] (Secret Noform)

Peru. The Peruvian army filled the last major gap in its force modernization program through acquisition of a Soviet self-propelled automatic antiaircraft gun system — the quad 22-mm ZSU 23-4. It will provide an effective mobile close-support air defense weapon. The weapons system is now known to be in Peru, but the number delivered and their arrival dates are not known. (Confidential)

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Near East and South Asia

Egypt. The Egyptian Minister of War Production visited North Korea during early September. Cairo probably was looking into the availability of spare parts for its Soviet-built equipment. (Confidential)

25X1B

India. The USSR delivered [REDACTED] MI-8 helicopters during September, probably under an agreement concluded earlier in the year. The new delivery brings India's MI-8 inventory up [REDACTED] (Confidential Noform)

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