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AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED AREAS OF THE FREE WORLD — 1965

EIC R14—S20

MARCH 1966

ECONOMIC INTELLIGENCE COMMITTEE
of the
UNITED STATES INTELLIGENCE BOARD

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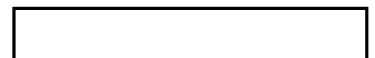
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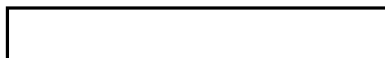
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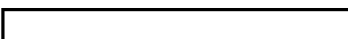
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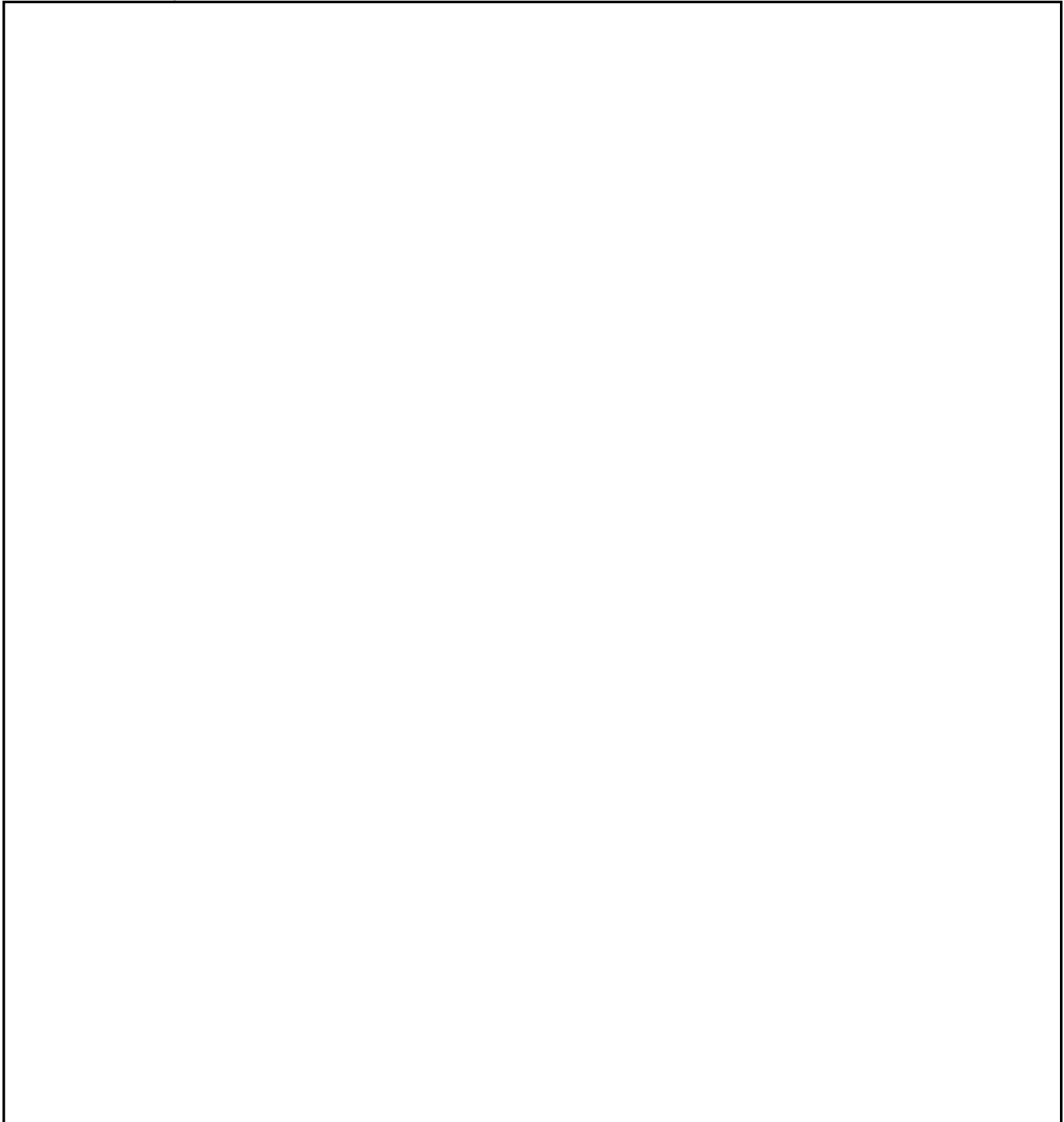
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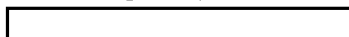
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AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED AREAS OF THE FREE WORLD, 1965

SUMMARY

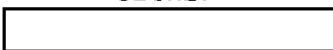
Introduction

The sizable new extensions* of economic aid by the USSR to less developed countries during 1965 and the continuing high level of deliveries of military equipment to these countries indicate the willingness of the new Soviet leadership to extend new economic aid where favorable opportunities exist and to fulfill its existing commitments. They also demonstrate that Moscow's current appraisal of the aid program and its prospects in less developed countries differs little from that of the previous regime (see Figure 1).

It is apparent, however, that the new leadership has adopted a more deliberate approach in undertaking new economic aid commitments. Unlike the earlier practice of announcing large umbrella credits before specific projects were negotiated, the USSR in 1965 apparently preferred to avoid definitive commitments pending detailed studies and negotiations. Moreover, the financial details of recent Soviet aid agreements have not been publicly announced in the USSR. This restraint may be an effort to allay internal criticism of the program while domestic shortages still persist. It may also reflect the uncertainty surrounding critical decisions over Soviet allocation of domestic resources still to be made for the upcoming long-term economic plan. The change in Soviet leadership has had no discernible adverse effect on military aid policy: new aid agreements to supply military equipment to nine less developed countries were signed during the year and the USSR continued to honor existing agreements.

* In this report the term *extension* refers to a commitment to provide, either as a grant or on deferred payment terms, goods and services not available in the recipient country. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. The term *obligation* refers to a credit or grant when it has been allocated to specific end uses. The term *drawings* refers to the delivery of goods or the use of services.

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The year 1965 was one of serious problems and frustrations for Peiping's policy toward less developed countries. The Indonesian Army's suppression of the pro-Peiping Indonesian Communist Party during the last three months of the year was perhaps the most serious setback to Peiping's expectations. Chinese Communist failure in Algiers to marshal Afro-Asian support and Cuba's recent shift to more explicit support of many Soviet policy positions also appeared to have somewhat blunted Peiping's drive to expand its influence in the less developed world.

East European countries, on the other hand, expanded their aid programs in 1965 and continued to apply the more liberal aid policies that became apparent in their new aid undertakings during 1964. All major new aid extended during 1965 carried easier terms than in the past, and a more liberal attitude was applied to the repayment problems of a number of aid recipients. These developments, together with a record level of East European aid extended in 1965, demonstrate the determination of these countries to exploit the aid program as a means of strengthening further their economic and political ties with the less developed countries.

Economic Credits and Grants

Following peak annual extensions of almost \$1.7 billion in 1964, Communist countries extended a total of \$1.2 billion of aid to 23 less developed countries during 1965, increasing their aggregate aid commitments since the inception of the aid program in 1954 to more than \$7.7 billion. As in 1964, the major share of new economic assistance was allocated to Middle Eastern countries, with Iran the largest single aid recipient and the UAR second. East European countries extended a record \$501 million of new aid during 1965. The USSR extended \$659 million, more than 80 percent of which was designated for CENTO countries. Communist China was the smallest aid donor during the year, extending only \$62 million in economic credits, compared with its record commitments of \$338 million in 1964. New economic aid continued as in the past to be most heavily committed to the industrial sector of the economies of less developed countries, while an increasing allocation of aid to commodity imports reflected a growing Communist awareness of the need to generate local currency to implement the aid program more effectively.

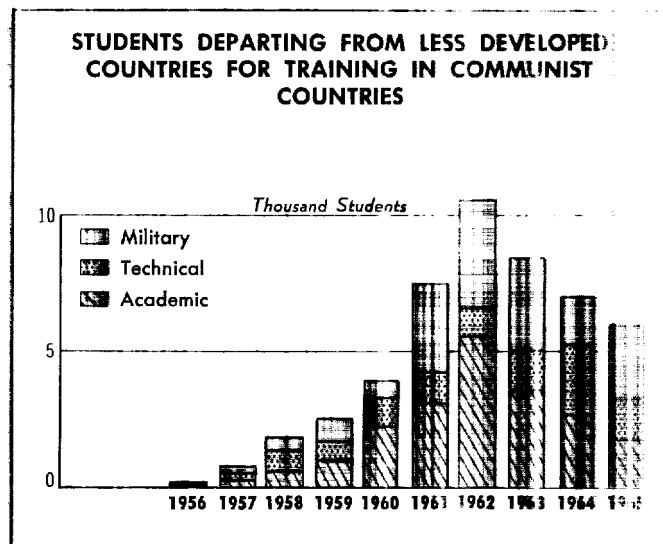
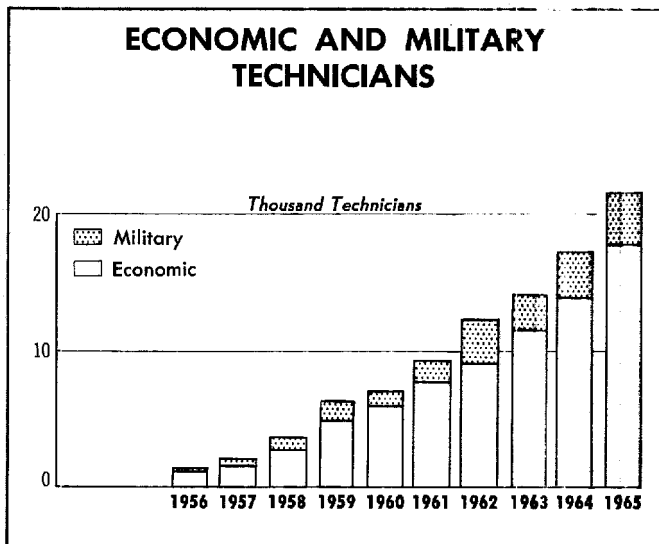
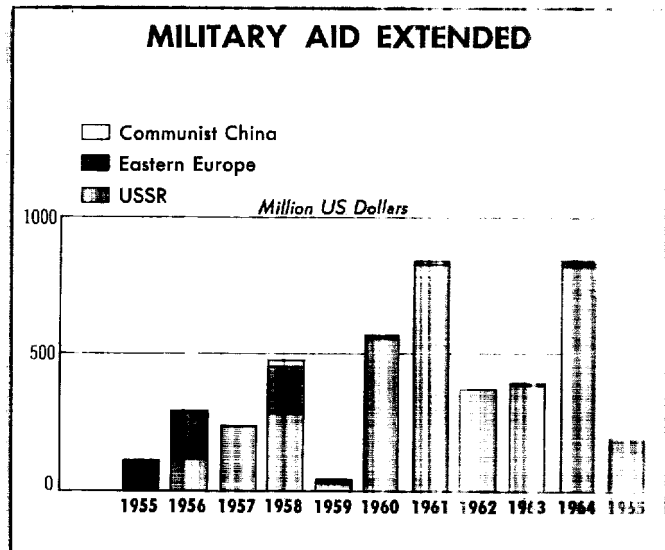
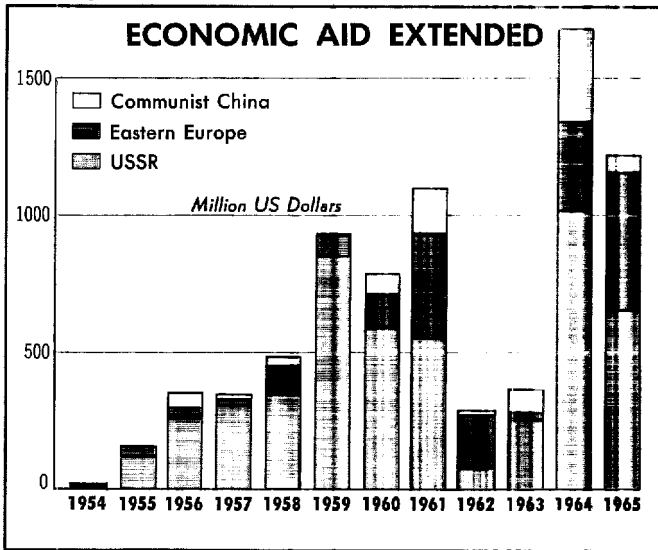
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**ECONOMIC AND MILITARY AID ACTIVITIES OF COMMUNIST COUNTRIES
IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD**

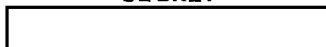
Selected Years, 1954-65



*Data are revised periodically to include new information and therefore may not be comparable with data previously presented.

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Drawings on Communist aid in 1965 are estimated to have totaled about \$455 million (a decline of about 15 percent from the 1964 level), bringing total Communist deliveries since 1954 up to \$2.6 billion at the end of 1965. Concurrent with the rise in aggregate drawings, the net indebtedness of the less developed countries for economic aid to the USSR and to the countries of Eastern Europe increased to about \$2 billion by the end of 1965. In 1965 the less developed countries were scheduled to repay an estimated total of \$115 million for principal and interest on Soviet credits and approximately \$45 million on credits from East European countries. As in 1964, there was evidence that a number of aid recipients were unable to meet these heavy repayment obligations, and concessions were made in some cases to allow deferment of current debt service payments. In addition, softer terms on new credit extensions were requested, and new assistance, especially by the countries of Eastern Europe, generally allowed longer repayment periods. Even if future aid program deliveries were to remain at current levels, annual debt repayments on credit extensions would increase at a rate of between 25 and 30 percent a year and thus will be a growing problem.

Economic Technicians

The technical assistance program continued apace with almost 18,000 Communist economic technicians employed in less developed countries during 1965, an increase of 30 percent over the previous year. A sharp expansion in the number of Chinese Communist technical personnel accounted for most of the increase and reflected the accelerated pace of Chinese project activity in Guinea, Mali, and Yemen as well as the labor-intensive character of Chinese aid activities. Approximately two-thirds of all Communist technical personnel in the less developed countries were employed in Afghanistan, Algeria, Guinea, India, Mali, Nepal, and the United Arab Republic (UAR). In the UAR alone there were nearly 2,500 Soviet technicians, 1,500 of whom were engaged in construction of the main dam and the electric power grid system eventually to be fed by the Aswan High Dam. About 2,100 Chinese were employed in Guinea and Mali developing agricultural areas and small-scale industrial facilities.

Technical Trainees and Academic Students

As part of the program to increase the technical proficiency of personnel in less developed countries, almost 1,600 persons from these

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countries went to Communist countries during 1965 to receive technical training. This brought the total number of persons who have undertaken this training since 1956 to almost 11,000. These trainees have included professional and managerial personnel and skilled technicians whose training is related primarily to the manpower requirements for Communist-aided projects in their homeland.

Academic Students

During 1965, 1,765 students from less developed countries enrolled in academic training programs in Communist countries. This number represents a drop of approximately 36 percent from the preceding year, which is also the third consecutive year in which a decline has occurred. Continuing the pattern of the past, by far the largest percentage of new enrollees went to the USSR and, as in recent years, most of the new students were from African countries.

Military Credits and Grants

Communist countries extended at least \$187 million of military aid to less developed countries during 1965, bringing the total of such assistance extended since 1955 up to \$4.3 billion. The USSR, which has provided 87 percent of total Communist military aid to less developed countries since the beginning of the program, continued to be the chief supplier in 1965. Although new aid commitments in 1965 were considerably below the near-record level of 1964, the USSR and Czechoslovakia each concluded important new agreements with India; in addition, the USSR concluded agreements with Algeria, Congo (Brazzaville), Ghana, Guinea, Indonesia, Uganda, the UAR, and Yemen. Minor credits were extended by Bulgaria to India and by Communist China to Cambodia.

Military Technicians and Training

As materiel deliveries under old agreements continued at a high level in 1965, the number of military technicians sent to assist in the assembly of equipment and to instruct in its use rose to 3,870, an increase of 17 percent over 1964. Afghanistan, Algeria, and India accounted for the largest part of the increase although most of the other military aid recipients also employed more technicians in 1965 than they had in the previous year. During 1965, 2,720 nationals from 15 less developed countries enrolled in military training pro-

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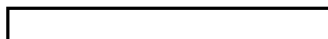
grams in Communist countries, primarily in the USSR. Since the start of the program, nearly 21,000 persons have received such training, and 4,355 still were being trained at the end of 1965. Indonesia has accounted for more than 40 percent of the total number trained, and five other countries—Afghanistan, Algeria, Iraq, Syria, and the UAR—have accounted for another 45 percent.

Trade

At the meetings of the United Nations Conference on Trade and Development in 1965, the Communist countries continued to avoid precise commitments to the less developed countries on grounds that the responsibility for the present economic plight of these countries rests with the "imperialists." In place of substantive undertakings, the Communist countries reiterated many of the same themes that they had presented at the Geneva Conference in 1964. In general, the less developed countries remained unimpressed by these Communist propaganda claims, realizing that the Communist area cannot match the developed countries of the Free World in fulfilling their trade and development needs.

Foreign trade turnover between the Communist and less developed countries during the first half of 1965 amounted to \$1.9 billion, or roughly 15 percent above the corresponding period of 1964. This expansion was accounted for primarily by increased Soviet and East European trade with the less developed countries. In 1964, total Communist trade with these countries increased 12 percent over 1963 to \$3.6 billion. The growth during 1964 was accounted for by increased East European and Chinese Communist trade. Soviet trade with the less developed countries in 1964 remained at the 1963 level of \$1.4 billion, primarily because of a decline in Soviet imports of rubber and cotton and a leveling off of Soviet exports under long-term economic credits. The geographic distribution of Communist trade with the less developed countries during the first half of 1965 followed the pattern of 1964, concentrating on Asia and the Middle East in general and on India and the UAR in particular. In 1964 the commodity composition of trade between Communist and less developed countries showed some variations from earlier years. The share of food products in total Communist imports rose from 27 to 39 percent of the total, while crude materials declined from 60 to 45

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percent. In the case of Communist exports, the most striking feature was the rise in the importance of machinery and equipment, which now accounts for two-fifths of total Communist exports to less developed countries, compared with one-third in 1963.

Africa

Communist relations with African countries during 1965 were highlighted by a low level of new economic aid commitments; by some sharp setbacks for Communist, particularly Chinese, policies in Africa; and by a general decline in overt Sino-Soviet competition for influence in African countries. Only \$99 million in new aid was extended during the year, a precipitous drop from the peak annual level of \$348 million in 1964. The USSR did not conclude any major agreements in 1965, compared with \$215 million extended to African countries during the previous year.

The overthrow of Ben Bella in Algeria and the assumption of power by the Boumedienne regime ended the use of that country as a forum for Communist, especially Soviet, propaganda. The Afro-Asian (Bandung II) Conference, avidly sought by Communist China as an instrument for expanding its influence among participating countries, was canceled. In spite of these policy reversals, however, Communist aid activities, particularly military, continued, and a Boumedienne visit to Moscow in December served to assure the continuance of Soviet programs in Algeria.

No new Communist aid commitments were made to Congo (Brazzaville), but some progress was noted under existing Soviet and Chinese credits. The favorable Chinese position in the Central African Republic (CAR) came to an abrupt end with the overthrow of the Dacko government and CAR's severance of diplomatic relations with Communist China. Morocco was the recipient of the largest Communist credit extended to an African country in 1965, \$30 million from Poland. Nigeria received its first economic aid credit from a Communist country with the acceptance of a \$14 million credit from Czechoslovakia.

Ghana was the recipient of a \$20 million credit from East Germany, and President Nkrumah announced his decision to initiate discussions with the USSR for the construction of a \$100 million hydroelectric dam at Bui. Guinean President Touré visited the USSR and

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Hungary and claimed that he had received Soviet assurances of assistance for construction of the Konkouré dam and related aluminum facilities. About 770 Chinese technicians were employed in Guinea, mainly at the site of the Kinkon dam and at the Macenta textile project. Mali also was host to a large number of Chinese technical personnel, about 1,230 employed largely on agricultural and light industrial projects. In Tanzania, Communist aid programs were characterized by Chinese cash disbursements, a modest amount of East German construction activity, and deliveries of Soviet military equipment.

Asia

Major Communist aid activities in Asian countries during 1965 generally followed the pattern of recent years. Construction activities in Afghanistan and India continued at a high level, while the programs in Ceylon and Indonesia reflected the usual confusion and lack of satisfactory progress. Military aid, however, continued to be delivered rapidly, concentrated in Afghanistan, India, and Indonesia.

Although Soviet construction projects in Afghanistan progressed satisfactorily, the USSR also initiated action to ease some of Afghanistan's financial problems. Commodity credits were extended to generate local currency for Soviet projects, some debt payments were rescheduled, and the services of a number of Soviet technicians were provided without charge. Soviet military aid activities also continued at a high level. In March, Afghanistan accepted its first aid from Communist China, a \$28 million interest-free credit.

Burma was the recipient of only one Communist credit during 1965, \$10 million from Poland for the purchase of Polish industrial equipment. Chinese construction activity continued to increase, and the Kunlong bridge was opened to traffic in November. There was little significant economic aid activity in Cambodia. Communist China agreed to provide military equipment sufficient to equip about 10,000 Cambodian military personnel. A change in government in Ceylon early in 1965 brought a shift in that country's foreign policy and an effort to improve relations with the West. Prior to the election, East Germany had extended a \$42 million credit to Ceylon.

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India continued to search for substantial amounts of foreign economic assistance during 1965 for its Fourth Five Year Plan, and two high-level delegations traveled to Moscow to obtain Soviet aid. Prime Minister Shastri's visit in May formalized the Bokaro steel mill agreement. In November, Finance Minister Krishnamachari reportedly sought as much as \$1.5 billion from the USSR for India's development program. No specific Soviet commitments, however, have been made public. Soviet military aid to India picked up in tempo after September with the signing of a \$100 million agreement with the USSR for naval equipment and an accord with Czechoslovakia for more than 250 medium tanks. The USSR delivered at least 6—and perhaps an additional 10—MIG-21 jet fighters to India.

The abortive "coup" in Indonesia in September highlighted that country's relations with the Communists. Relations with Communist China deteriorated rapidly as Indonesian military leaders became convinced that the Chinese were implicated. All trade with China was embargoed and Chinese economic technicians withdrawn. Indonesian-Soviet relations, however, remained relatively unchanged. Military deliveries continued, and a new agreement totaling \$26 million was signed in May.

Soviet and Chinese aid activities in Nepal continued to focus on roadbuilding projects. Pakistan further expanded its relations with the Communist countries, especially Communist China, during 1965. A \$60 million Chinese credit was formally signed in February, and half the total was allocated for industrial installations. Soviet aid to Pakistan totaled \$50 million, largely for the import of machinery and equipment.

Latin America

Latin American economic relations with Communist countries were confined largely to trade. Large grain sales by Argentina to Communist China and the USSR, totaling at least \$245 million, highlighted such trade. In September the USSR extended a \$15 million credit to the Argentine oil industry. Brazil's foreign economic policies reflected a cautious interest in expanding trade with the Communist countries. An agreement was concluded between the USSR and a private Brazilian firm for an unspecified credit to construct a pilot plant for processing shale oil. During the year, Communist China purchased

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11,500 tons* of copper and 40,000 tons of sodium nitrate from Chile, paying for these purchases in hard currency.

Middle East

Communist aid activities in the Middle East were highlighted by major commitments to Iran and Turkey, an \$84 million credit to a Greek shipowner, and additional sizable aid commitments for the UAR's Second Five Year Plan (July 1965 - June 1970). In Cyprus the USSR completed its military aid deliveries under the September 1964 agreement (transshipped through the UAR, where some SAM equipment still was in storage), and a number of Communist countries concluded trade protocols designed to absorb much of Cypriot agricultural surpluses. Trade between Greece and the Communist countries remained at a high level. The USSR extended an \$84 million credit to a private firm for the purchase of Soviet ships with payment to be made over a period of eight years in hard currency and Greek commodities.

The USSR achieved a significant economic breakthrough in Iran with the negotiation of a \$290 million credit for the construction of a steel mill, a machine tool plant, and a natural gas pipeline. The credit will be repaid over 12 years at 2.5 percent interest in Iranian commodities and natural gas. The pipeline will be built to carry gas to the Soviet border, but the USSR apparently will not supply the large-diameter pipe required for the line. Iran also accepted credits from Czechoslovakia and Hungary totaling \$25 million.

No new Communist credits were extended to Iraq, but the USSR agreed to obligate part of its 1959 credit for the construction of a dam on the Euphrates River and a tractor assembly plant. Syria was the recipient of credits from East Germany totaling \$29.7 million. A defunct Polish credit of \$15 million was revived and raised to \$25 million. A new Soviet military agreement was signed with Yemen.

Turkey showed a willingness to expand economic relations with the USSR. During an August visit to Moscow, Prime Minister Urguplu accepted a Soviet commitment to construct a number of plants in Turkey under a credit unofficially placed at \$200 million. Although a new government emerged in October, Soviet surveys subsequently

* Tonnages are given in metric tons throughout this report.

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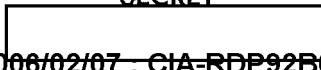


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were initiated to determine the precise cost of seven projects which may be undertaken. In December an agreement was announced by Turkey, resulting from an official exchange of letters.

During 1965 an additional \$255 million was extended by Communist countries to the UAR, bringing to almost \$900 million the total of Communist aid commitments made during the past two years for the UAR's Second Five Year Plan. Economic difficulties in the UAR, however, compelled the regime to initiate a review of the development program, resulting in the cancellation of a number of Soviet, Czechoslovak, Polish, and Rumanian projects. In September a new military aid agreement was signed with the USSR.

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EIC R14—S20

MARCH 1966

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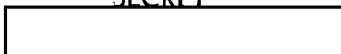
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SUMMARY

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* For a graphic presentation of these activities, see Figures 1 through 8, at the end of the Summary.

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military equipment to nine less developed countries were signed during the year and the USSR continued to honor existing agreements.

The year 1965 was one of serious problems and frustrations for Peiping's policy toward less developed countries. The Indonesian Army's suppression of the pro-Peiping Indonesian Communist Party during the last three months of the year was perhaps the most serious setback to Peiping's expectations. Chinese Communist failure in Algiers to marshal Afro-Asian support and Cuba's recent shift to more explicit support of many Soviet policy positions also appeared to have somewhat blunted Peiping's drive to expand its influence in the less developed world.

East European countries, on the other hand, expanded their aid programs in 1965 and continued to apply the more liberal aid policies that became apparent in their new aid undertakings during 1964. All major new aid extended during 1965 carried easier terms than in the past, and a more liberal attitude was applied to the repayment problems of a number of aid recipients. These developments, together with a record level of East European aid extended in 1965, demonstrate the determination of these countries to exploit the aid program as a means of strengthening further their economic and political ties with the less developed countries.

Economic Credits and Grants

Following peak annual extensions of almost \$1.7 billion in 1964, Communist countries extended a total of \$1.2 billion of aid to 23 less developed countries during 1965, increasing their aggregate aid commitments since the inception of the aid program in 1954 to more than \$7.7 billion. As in 1964, the major share of new economic assistance was allocated to Middle Eastern countries, with Iran the largest single aid recipient and the UAR second. East European countries extended a record \$501 million of new aid during 1965. The USSR extended \$659 million, more than 80 percent of which was designated for CENTO countries. Communist China was the smallest aid donor during the year, extending only \$62 million in economic credits, compared with its record commitments of \$338 million in 1964. New economic aid continued as in the past to be most heavily committed to the industrial sector of the economies of less developed countries, while an increasing allocation of aid to commodity imports reflected a

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growing Communist awareness of the need to generate local currency to implement the aid program more effectively.

Drawings on Communist aid in 1965 are estimated to have totaled about \$455 million (a decline of about 15 percent from the 1964 level), bringing total Communist deliveries since 1954 up to \$2.6 billion at the end of 1965. Concurrent with the rise in aggregate drawings, the net indebtedness of the less developed countries for economic aid to the USSR and to the countries of Eastern Europe increased to about \$2 billion by the end of 1965. In 1965 the less developed countries were scheduled to repay an estimated total of \$115 million for principal and interest on Soviet credits and approximately \$45 million on credits from East European countries. As in 1964, there was evidence that a number of aid recipients were unable to meet these heavy repayment obligations, and concessions were made in some cases to allow deferment of current debt service payments. In addition, softer terms on new credit extensions were requested, and new assistance, especially by the countries of Eastern Europe, generally allowed longer repayment periods. Even if future aid program deliveries were to remain at current levels, annual debt repayments on credit extensions would increase at a rate of between 25 and 30 percent a year and thus will be a growing problem.

Economic Technicians

The technical assistance program continued apace with almost 18,000 Communist economic technicians employed in less developed countries during 1965, an increase of 30 percent over the previous year. A sharp expansion in the number of Chinese Communist technical personnel accounted for most of the increase and reflected the accelerated pace of Chinese project activity in Guinea, Mali, and Yemen as well as the labor-intensive character of Chinese aid activities. Approximately two-thirds of all Communist technical personnel in the less developed countries were employed in Afghanistan, Algeria, Guinea, India, Mali, Nepal, and the United Arab Republic (UAR). In the UAR alone there were nearly 2,500 Soviet technicians, 1,500 of whom were engaged in construction of the main dam and the electric power grid system eventually to be fed by the Aswan High Dam. About 2,100 Chinese were employed in Guinea and Mali developing agricultural areas and small-scale industrial facilities.

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Technical Trainees and Academic Students

As part of the program to increase the technical proficiency of personnel in less developed countries, almost 1,600 persons from these countries went to Communist countries during 1965 to receive technical training. This brought the total number of persons who have undertaken this training since 1956 to almost 11,000. These trainees have included professional and managerial personnel and skilled technicians whose training is related primarily to the manpower requirements for Communist-aided projects in their homeland.

Academic Students

During 1965, 1,765 students from less developed countries enrolled in academic training programs in Communist countries. This number represents a drop of approximately 36 percent from the preceding year, which is also the third consecutive year in which a decline has occurred. Continuing the pattern of the past, by far the largest percentage of new enrollees went to the USSR and, as in recent years, most of the new students were from African countries.

Military Credits and Grants

Communist countries extended at least \$187 million of military aid to less developed countries during 1965, bringing the total of such assistance extended since 1955 up to \$4.3 billion. The USSR, which has provided 87 percent of total Communist military aid to less developed countries since the beginning of the program, continued to be the chief supplier in 1965. Although new aid commitments in 1965 were considerably below the near-record level of 1964, the USSR and Czechoslovakia each concluded important new agreements with India; in addition, the USSR concluded agreements with Algeria, Congo (Brazzaville), Ghana, Guinea, Indonesia, Uganda, the UAR, and Yemen. Minor credits were extended by Bulgaria to India and by Communist China to Cambodia.

Military Technicians and Training

As materiel deliveries under old agreements continued at a high level in 1965, the number of military technicians sent to assist in the assembly of equipment and to instruct in its use rose to 3,870, an increase of 17 percent over 1964. Afghanistan, Algeria, and India accounted for the largest part of the increase although most of the other military

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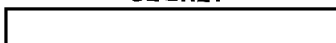
aid recipients also employed more technicians in 1965 than they had in the previous year. During 1965, 2,720 nationals from 15 less developed countries enrolled in military training programs in Communist countries, primarily in the USSR. Since the start of the program, nearly 21,000 persons have received such training, and 4,355 still were being trained at the end of 1965. Indonesia has accounted for more than 40 percent of the total number trained, and five other countries—Afghanistan, Algeria, Iraq, Syria, and the UAR—have accounted for another 45 percent.

Trade

At the meetings of the United Nations Conference on Trade and Development in 1965, the Communist countries continued to avoid precise commitments to the less developed countries on grounds that the responsibility for the present economic plight of these countries rests with the "imperialists." In place of substantive undertakings, the Communist countries reiterated many of the same themes that they had presented at the Geneva Conference in 1964. In general, the less developed countries remained unimpressed by these Communist propaganda claims, realizing that the Communist area cannot match the developed countries of the Free World in fulfilling their trade and development needs.

Foreign trade turnover between the Communist and less developed countries during the first half of 1965 amounted to \$1.9 billion, or roughly 15 percent above the corresponding period of 1964. This expansion was accounted for primarily by increased Soviet and East European trade with the less developed countries. In 1964, total Communist trade with these countries increased 12 percent over 1963 to \$3.6 billion. The growth during 1964 was accounted for by increased East European and Chinese Communist trade. Soviet trade with the less developed countries in 1964 remained at the 1963 level of \$1.4 billion, primarily because of a decline in Soviet imports of rubber and cotton and a leveling off of Soviet exports under long-term economic credits. The geographic distribution of Communist trade with the less developed countries during the first half of 1965 followed the pattern of 1964, concentrating on Asia and the Middle East in general and on India and the UAR in particular. In 1964 the commodity composition of trade between Communist and less developed countries showed some variations from earlier years. The share of food products in total

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Communist imports rose from 27 to 39 percent of the total, while crude materials declined from 60 to 45 percent. In the case of Communist exports, the most striking feature was the rise in the importance of machinery and equipment, which now accounts for two-fifths of total Communist exports to less developed countries, compared with one-third in 1963.

Africa

Communist relations with African countries during 1965 were highlighted by a low level of new economic aid commitments; by some sharp setbacks for Communist, particularly Chinese, policies in Africa; and by a general decline in overt Sino-Soviet competition for influence in African countries. Only \$99 million in new aid was extended during the year, a precipitous drop from the peak annual level of \$348 million in 1964. The USSR did not conclude any major agreements in 1965, compared with \$215 million extended to African countries during the previous year.

The overthrow of Ben Bella in Algeria and the assumption of power by the Boumedienne regime ended the use of that country as a forum for Communist, especially Soviet, propaganda. The Afro-Asian (Bandung II) Conference, avidly sought by Communist China as an instrument for expanding its influence among participating countries, was canceled. In spite of these policy reversals, however, Communist aid activities, particularly military, continued, and a Boumedienne visit to Moscow in December served to assure the continuance of Soviet programs in Algeria.

No new Communist aid commitments were made to Congo (Brazzaville), but some progress was noted under existing Soviet and Chinese credits. The favorable Chinese position in the Central African Republic (CAR) came to an abrupt end with the overthrow of the Dacko government and the CAR's severance of diplomatic relations with Communist China. Morocco was the recipient of the largest Communist credit extended to an African country in 1965, \$30 million from Poland. Nigeria received its first economic aid credit from a Communist country with the acceptance of a \$14 million credit from Czechoslovakia.

Ghana was the recipient of a \$20.2 million credit from East Germany, and President Nkrumah announced his decision to initiate dis-

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cussions with the USSR for the construction of a \$100 million hydroelectric dam at Bui. Guinean President Touré visited the USSR and Hungary and claimed that he had received Soviet assurances of assistance for construction of the Konkouré dam and related aluminum facilities. About 770 Chinese technicians were employed in Guinea, mainly at the site of the Kinkon dam and at the Macenta textile project. Mali also was host to a large number of Chinese technical personnel, about 1,230 employed largely on agricultural and light industrial projects. In Tanzania, Communist aid programs were characterized by Chinese cash disbursements, a modest amount of East German construction activity, and deliveries of Soviet military equipment.

Asia

Major Communist aid activities in Asian countries during 1965 generally followed the pattern of recent years. Construction activities in Afghanistan and India continued at a high level, while the programs in Ceylon and Indonesia reflected the usual confusion and lack of satisfactory progress. Military aid, however, continued to be delivered rapidly, concentrated in Afghanistan, India, and Indonesia.

Although Soviet construction projects in Afghanistan progressed satisfactorily, the USSR also initiated action to ease some of Afghanistan's financial problems. Commodity credits were extended to generate local currency for Soviet projects, some debt payments were re-scheduled, and the services of a number of Soviet technicians were provided without charge. Soviet military aid activities also continued at a high level. In March, Afghanistan accepted its first aid from Communist China, a \$28 million interest-free credit.

Burma was the recipient of only one Communist credit during 1965, \$10 million from Poland for the purchase of Polish industrial equipment. Chinese construction activity continued to increase, and the Kunlong bridge was opened to traffic in November. There was little significant economic aid activity in Cambodia. Communist China agreed to provide military equipment sufficient to equip about 10,000 Cambodian military personnel. A change in government in Ceylon early in 1965 brought a shift in that country's foreign policy and an effort to improve relations with the West. Prior to the election, East Germany had extended a \$42 million credit to Ceylon.

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India continued to search for substantial amounts of foreign economic assistance during 1965 for its Fourth Five Year Plan, and two high-level delegations traveled to Moscow to obtain Soviet aid. Prime Minister Shastri's visit in May formalized the Bokaro steel mill agreement. In November, Finance Minister Krishnamachari reportedly sought as much as \$1.5 billion from the USSR for India's development program. No specific Soviet commitments, however, have been made public. Soviet military aid to India picked up in tempo after September with the signing of a \$100 million agreement with the USSR for naval equipment and an accord with Czechoslovakia for more than 250 medium tanks. The USSR delivered at least 6—and perhaps an additional 10—MIG-21 jet fighters to India.

The abortive "coup" in Indonesia in September highlighted that country's relations with the Communists. Relations with Communist China deteriorated rapidly as Indonesian military leaders became convinced that the Chinese were implicated. All trade with China was embargoed and Chinese economic technicians withdrawn. Indonesian-Soviet relations, however, remained relatively unchanged. Military deliveries continued, and a new agreement totaling \$26 million was signed in May.

Soviet and Chinese aid activities in Nepal continued to focus on roadbuilding projects. Pakistan further expanded its relations with the Communist countries, especially Communist China, during 1965. A \$60 million Chinese credit was formally signed in February, and half the total was allocated for industrial installations. Soviet aid to Pakistan totaled \$50 million, largely for the import of machinery and equipment.

Latin America

Latin American economic relations with Communist countries were confined largely to trade. Large grain sales by Argentina to Communist China and the USSR, totaling at least \$245 million, highlighted such trade. In September the USSR extended a \$15 million credit to the Argentine oil industry. Brazil's foreign economic policies reflected a cautious interest in expanding trade with the Communist countries. An agreement was concluded between the USSR and a private Brazilian firm for an unspecified credit to construct a pilot plant for processing shale oil. During the year, Communist China purchased 11,500

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metric tons of copper and 40,000 metric tons of sodium nitrate from Chile, paying for these purchases in hard currency.

Middle East

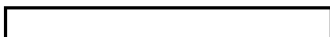
Communist aid activities in the Middle East were highlighted by major commitments to Iran and Turkey, an \$84 million credit to a Greek shipowner, and additional sizable aid commitments for the UAR's Second Five Year Plan (July 1965 - June 1970). In Cyprus the USSR completed its military aid deliveries under the September 1964 agreement (transshipped through the UAR, where some SAM equipment still was in storage), and a number of Communist countries concluded trade protocols designed to absorb much of Cypriot agricultural surpluses. Trade between Greece and the Communist countries remained at a high level. The USSR extended an \$84 million credit to a private firm for the purchase of Soviet ships with payment to be made over a period of eight years in hard currency and Greek commodities.

The USSR achieved a significant economic breakthrough in Iran with the negotiation of a \$290 million credit for the construction of a steel mill, a machine tool plant, and a natural gas pipeline. The credit will be repaid over 12 years at 2.5 percent interest in Iranian commodities and natural gas. The pipeline will be built to carry gas to the Soviet border, but the USSR apparently will not supply the large-diameter pipe required for the line. Iran also accepted credits from Czechoslovakia and Hungary totaling \$25 million.

No new Communist credits were extended to Iraq, but the USSR agreed to obligate part of its 1959 credit for the construction of a dam on the Euphrates River and a tractor assembly plant. Syria was the recipient of credits from East Germany totaling \$29.7 million. A defunct Polish credit of \$15 million was revived and raised to \$25 million. A new Soviet military agreement was signed with Yemen.

Turkey showed a willingness to expand economic relations with the USSR. During an August visit to Moscow, Prime Minister Urguplu accepted a Soviet commitment to construct a number of plants in Turkey under a credit unofficially placed at \$200 million. Although a new government emerged in October, Soviet surveys subsequently

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were initiated to determine the precise cost of seven projects which may be undertaken. In December an agreement was announced by Turkey, resulting from an official exchange of letters.

During 1965 an additional \$255 million was extended by Communist countries to the UAR, bringing to almost \$900 million the total of Communist aid commitments made during the past two years for the UAR's Second Five Year Plan. Economic difficulties in the UAR, however, compelled the regime to initiate a review of the development program, resulting in the cancellation of a number of Soviet, Czechoslovak, Polish, and Rumanian projects. In September a new military aid agreement was signed with the USSR.

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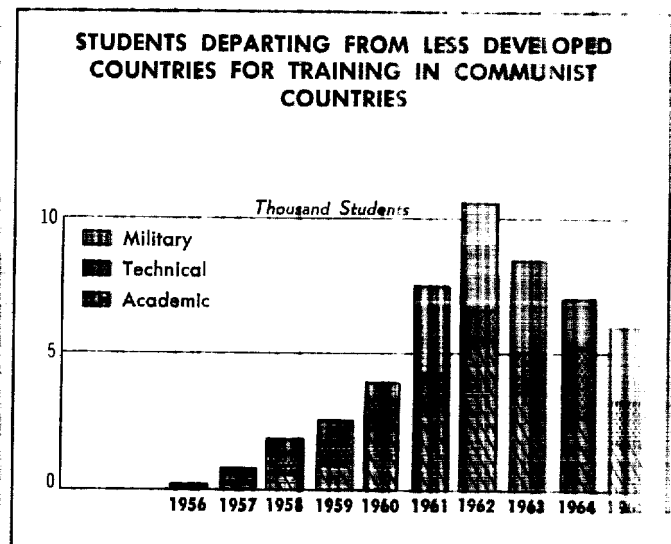
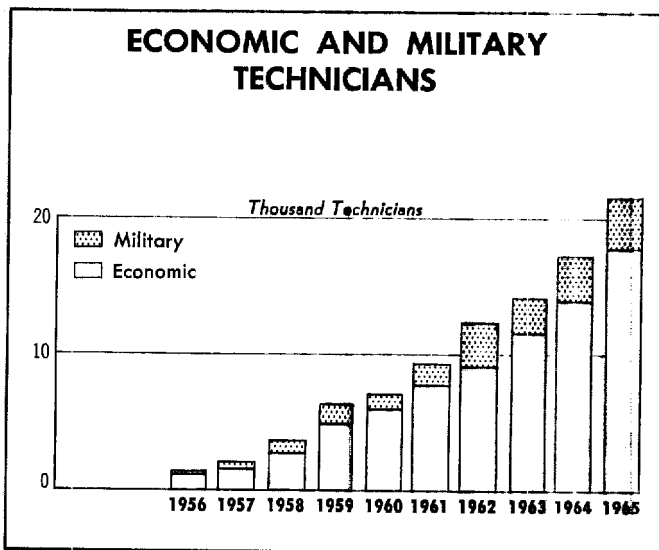
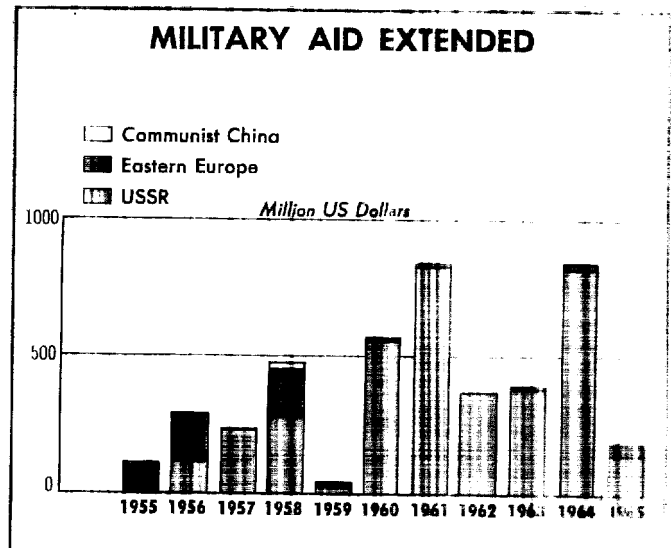
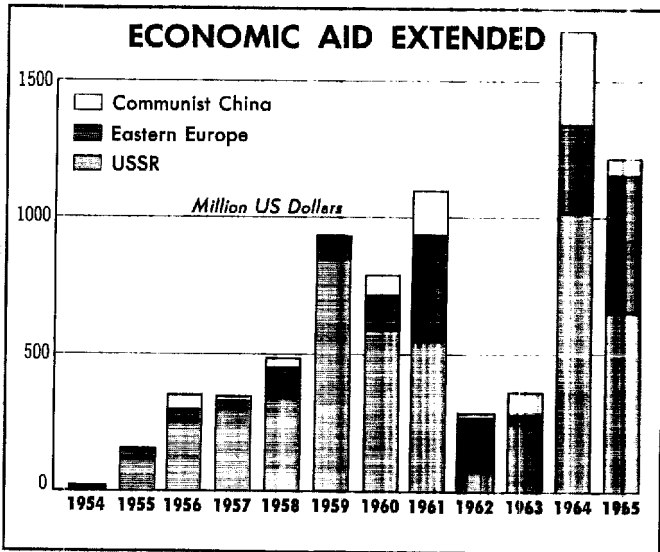
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ECONOMIC AND MILITARY AID ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD

Selected Years, 1954-65

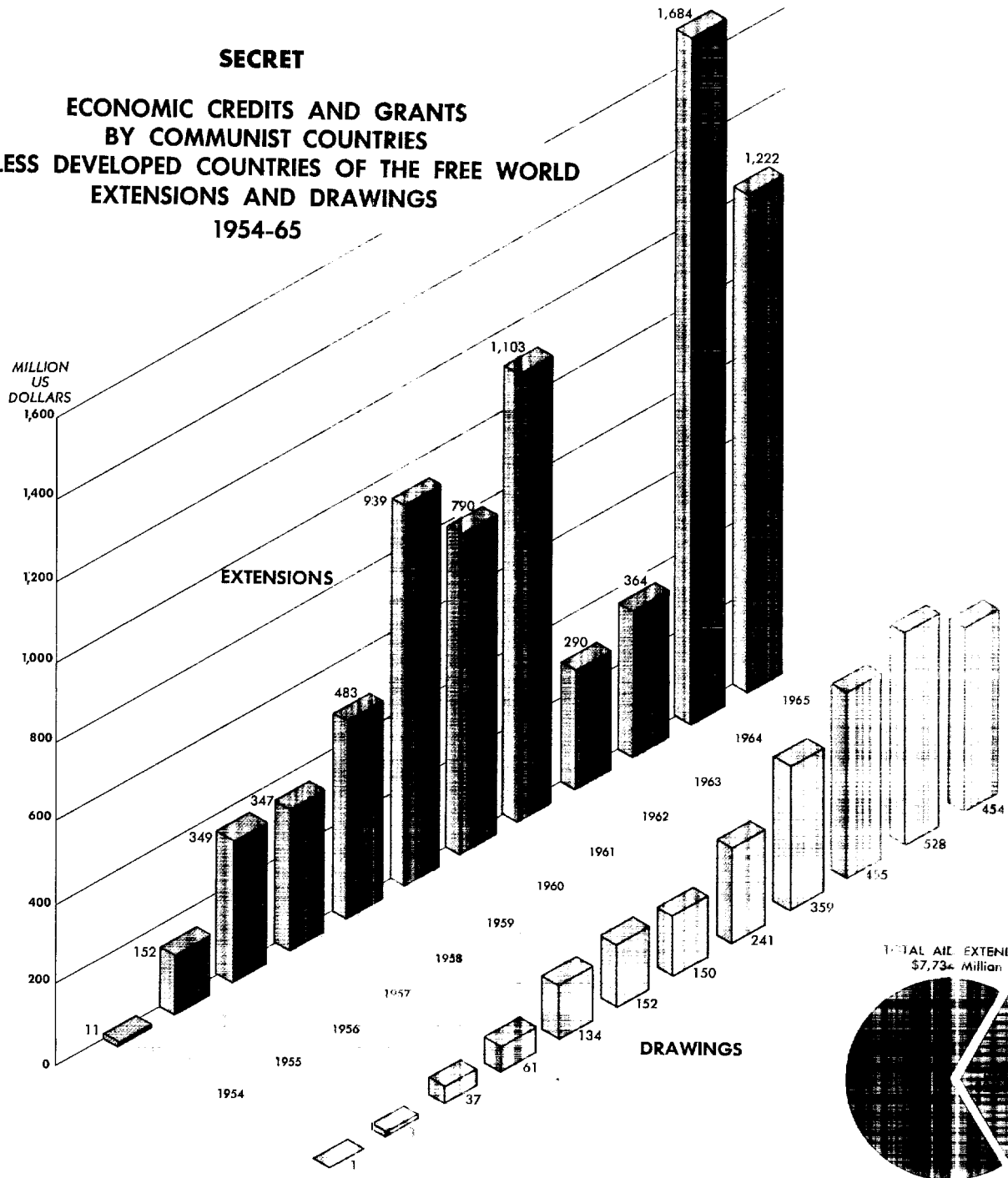


*Data are revised periodically to include new information and therefore may not be comparable with data previously presented

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**ECONOMIC CREDITS AND GRANTS
BY COMMUNIST COUNTRIES
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD
EXTENSIONS AND DRAWINGS
1954-65**



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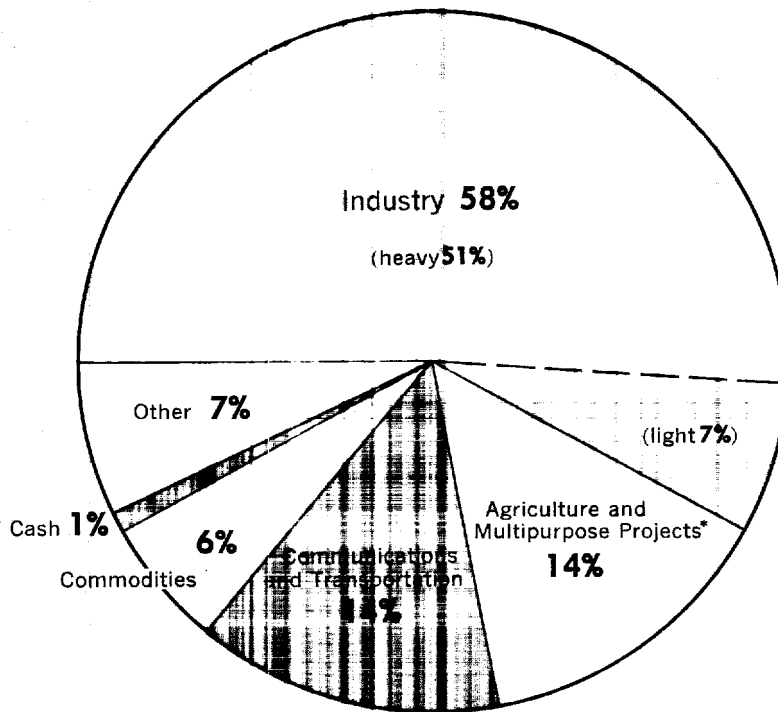
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Figure 3

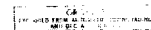
**ALLOCATION OF ECONOMIC AID BY COMMUNIST COUNTRIES
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD
BY END USE, Cumulative 1954-65**

(percent of total)



*The component parts cannot be broken out since multipurpose projects include dams that contribute to both the agricultural sector and to the generation of electricity.

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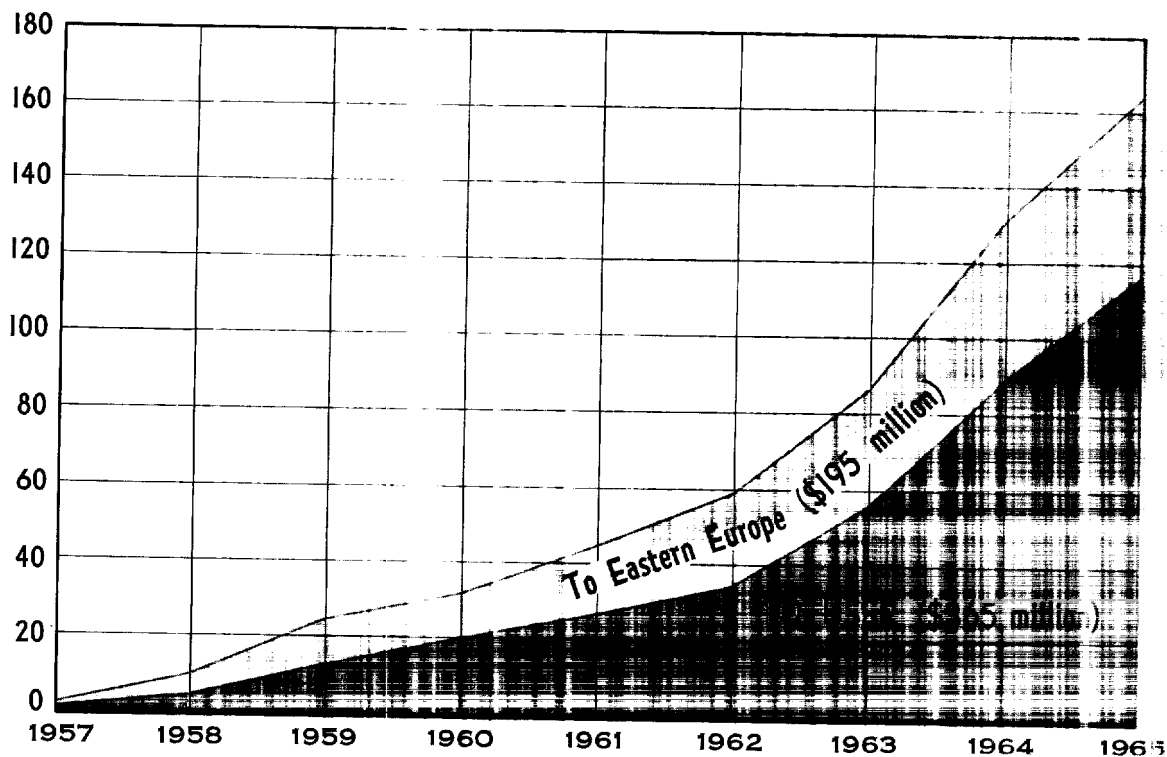


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Figure 4

Scheduled Repayments to the USSR and Eastern Europe by Less Developed Countries of the Free World for Economic Aid Drawn 1957-65

Million US Dollars



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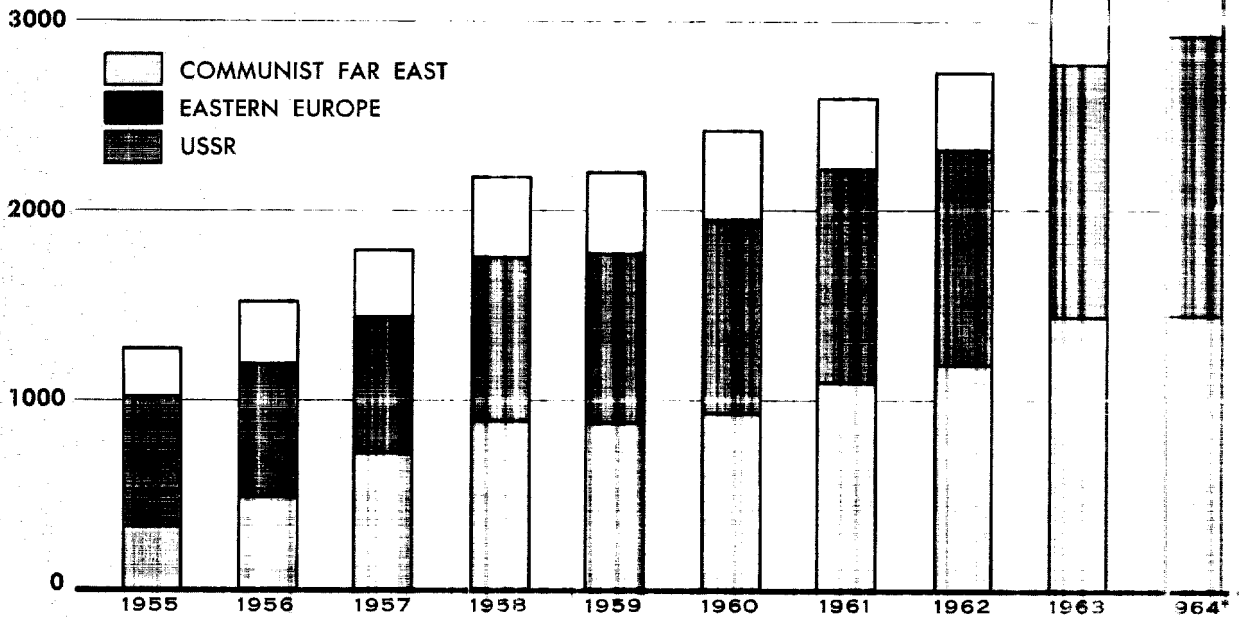
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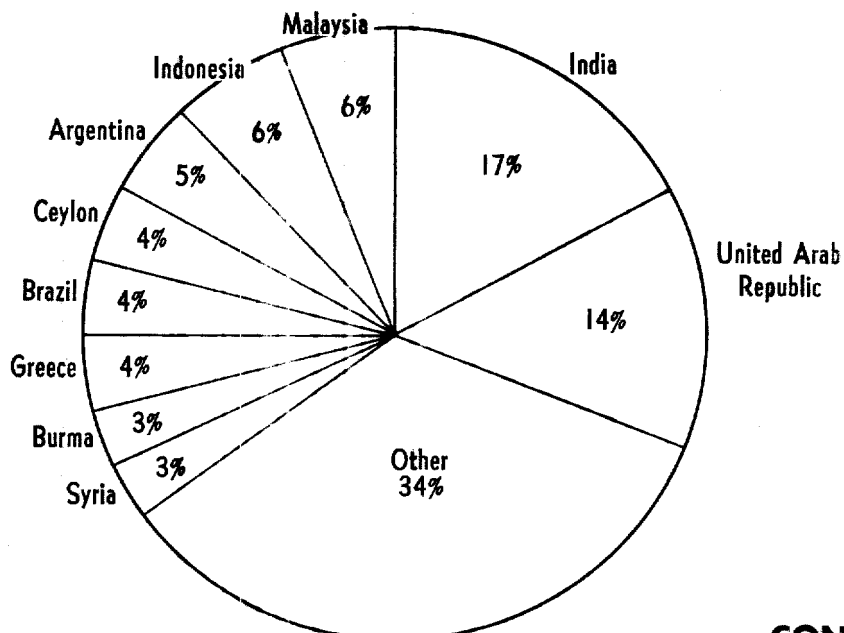
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Trade of Communist Countries with Less Developed Countries of the Free World, 1955-64 and Percentage Distribution, 1964

Million US Dollars



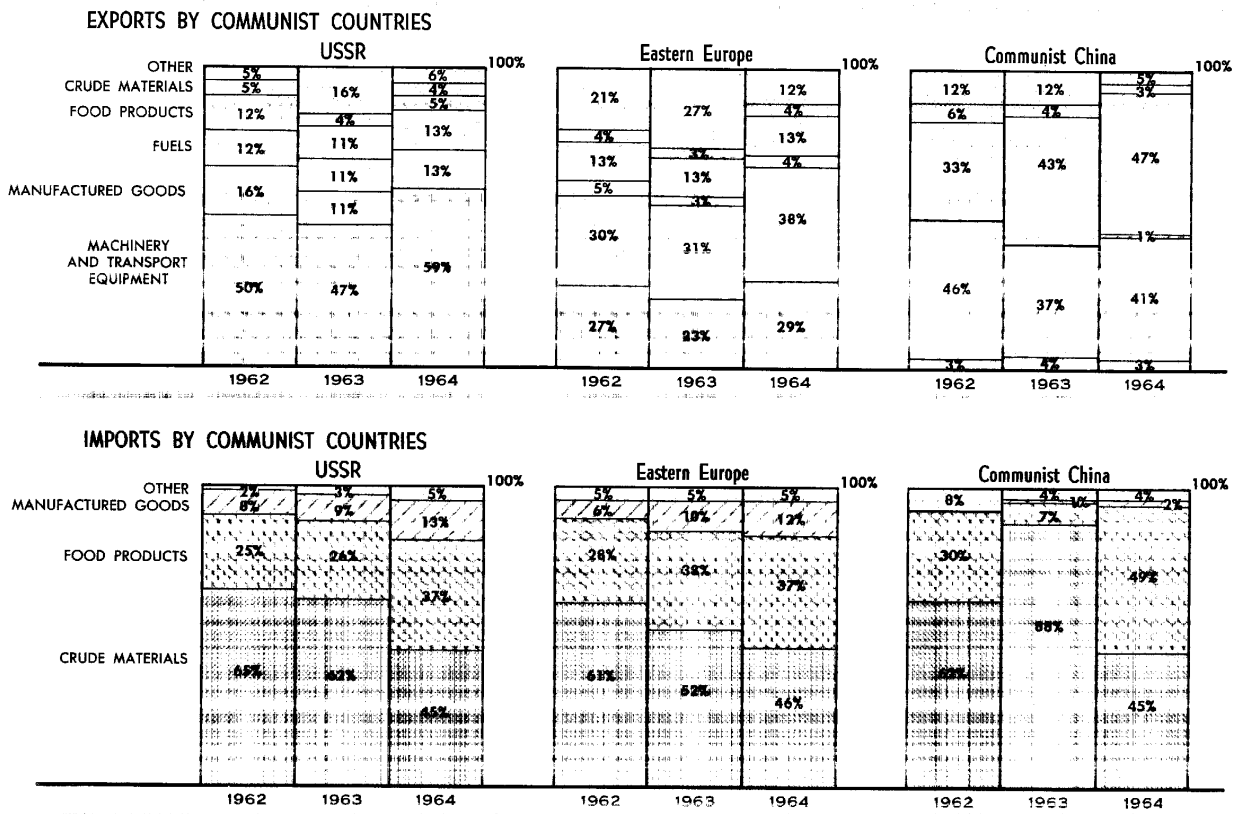
* Excluding \$11.1 million of trade with Southern Rhodesia and Zambia which cannot be distributed by Communist country



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Figure 8

TRADE OF COMMUNIST COUNTRIES WITH LESS DEVELOPED COUNTRIES OF THE FREE WORLD, BY COMMODITY GROUP,* 1962-64



*Data for the USSR are from official Soviet trade yearbooks. Data for Eastern Europe and Communist China are based on trade returns of about 20 non-Communist less developed countries that reported to the USSR.

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