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Committee

*Aid and Trade Activities of Communist
Countries in Less Developed Areas of the
Free World, 1968*

Secret

EIC R14-S23
February 1969

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W A R N I N G

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**Prepared by the Working Group on Communist Aid and Trade Activities
in Less Developed Areas of the Free World**

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Foreword

The EIC-R14 series provides periodic summaries and analytical interpretations of significant developments in the economic and military aid activities of Communist countries with less developed countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series.

This report, covering the 12 months from 1 January through 31 December 1968, constitutes the twenty-third report of the EIC-R14 series. The present report updates and revises data in the previous annual reports; figures in the current supplement supersede those in previous issues. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, which includes representatives of the Department of State, the Defense Intelligence Agency, the Departments of Commerce and Agriculture, the Agency for International Development, the National Security Agency, and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 10 February 1969.

In this report the term *Communist countries* refers primarily to the following countries that extend aid to less developed countries of the Free World: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. Yugoslavia is not normally included.

The term *less developed countries of the Free World* includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries of the Far East except Japan; (3) Portugal and Spain in Europe; (4) all countries in Latin America except Cuba; and (5) all countries in the Near East and South Asia.

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AID AND TRADE ACTIVITIES OF COMMUNIST
COUNTRIES IN LESS DEVELOPED AREAS
OF THE FREE WORLD, 1968

Summary

Major Trends

The growth of Communist aid and trade activity in the less developed countries of the Free World has tended to level off since 1964-65 (see Figure 1).^{*} Annual deliveries of economic aid have declined since 1964, although \$6 billion in committed aid remains to be delivered. Trade has grown at a modest rate since 1965, while Communist programs of technical assistance and academic and technical training appear to have remained at about their 1965 levels. Drawings on Communist military aid, in spite of the large-scale Soviet resupply of the Arab states in 1967-68, have leveled off at something on the order of \$400 million a year.

During the past several years the Soviets have adopted a more cautious approach to both economic and military aid. They have been more discriminating in the selection, implementation, and terms of aid. Greater attention is given to determining the suitability of particular projects for particular countries, and fewer large, unspecified lines of credit are extended. Terms of Soviet credits have hardened somewhat even for its traditionally favored clients. While not refusing requests for some form of military aid, the Soviets have shown increasing concern over the amounts and types of aid provided and, in the Middle East, have taken measures to insure more effective use of its military aid.

^{*} *In this report the term extension refers to a commitment to provide goods and services either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initiated and constitute a formal declaration of intent. The term drawings refers to the delivery of goods or the use of services.*

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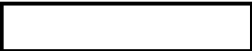
The USSR also has taken a number of steps recently to promote the growth of its trade with the less developed countries. The conclusion of a number of short-term commodity agreements to purchase tropical products and agreements to import products manufactured in enterprises built with Soviet assistance are consonant with the Soviet position that only trade can be the basis for permanent and growing economic ties. Such agreements also minimize the buildup of unused payment balances in the less developed countries.

Economic Credits and Grants

Communist economic aid extensions of \$743 million in 1968, compared with \$521 million in 1967, were highlighted by a series of new credits to Iran and a large Soviet commitment to Afghanistan. Iran alone received 60 percent of total extensions as the USSR, Czechoslovakia, Hungary, and Rumania signed agreements providing \$453 million in new credits which will be repaid largely in Iranian oil and natural gas. The Soviet credit to Afghanistan, another southern neighbor, was less remarkable for its size, \$127 million, than its terms, which were decidedly less favorable than in the past. Most of the new Soviet credit to Afghanistan is repayable in 7 to 12 years after a three-year grace period -- less than half the repayment period for credits granted in earlier years. As in previous years, the USSR and Eastern Europe together accounted for by far the bulk -- over nine-tenths -- of the new credits extended in 1968. Communist China's major new extension was a \$42 million credit to Pakistan.

Deliveries of economic assistance to the less developed countries fell slightly to about \$430 million in 1968. Since the inception of the program in 1954, the recipient nations have drawn over \$4 billion of the \$10 billion in aid extended by the Communist countries. The decline in 1968 drawings was due largely to cutbacks in Chinese deliveries as well as to a slight decline in East European aid deliveries. Drawings on Soviet credits of about \$290 million were at about the same level as in 1967.

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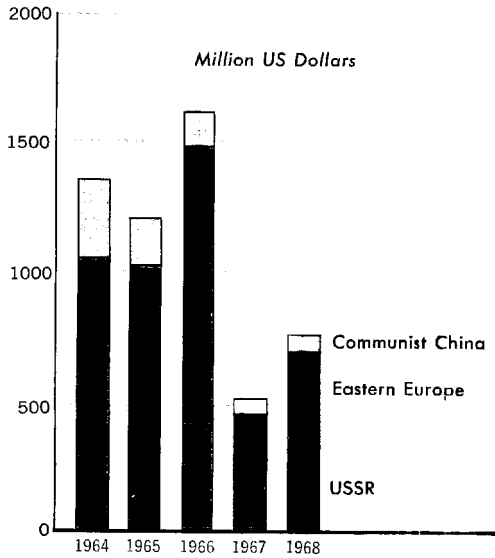


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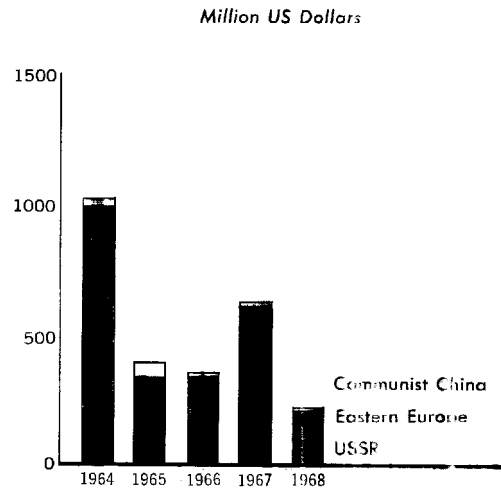
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COMMUNIST ACTIVITY IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD,* 1964-68

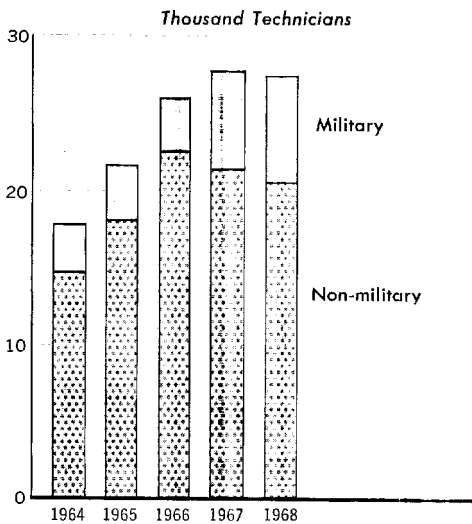
ECONOMIC ASSISTANCE EXTENDED



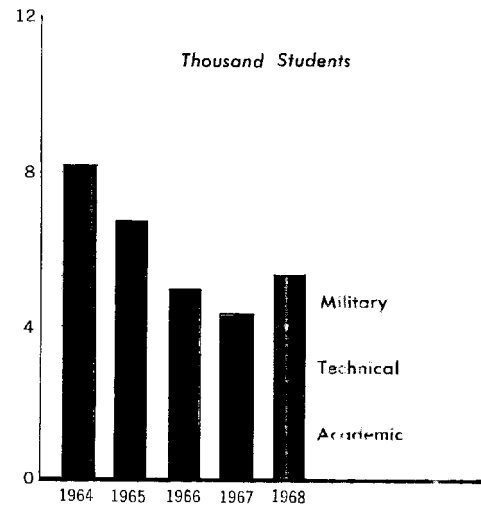
MILITARY ASSISTANCE EXTENDED



NON-MILITARY AND MILITARY TECHNICIANS IN LESS DEVELOPED COUNTRIES

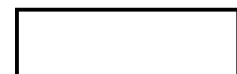


STUDENTS DEPARTING FROM LESS DEVELOPED COUNTRIES FOR TRAINING IN COMMUNIST COUNTRIES



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



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Non-Military Technicians

The number and distribution of Communist non-military technicians in the less developed countries changed little in 1968 from previous years. Of the 20,000 estimated to have been working in 45 countries during 1968, the USSR accounted for about half, Eastern Europe for one-third, and Communist China for about one-fifth. Communist technical aid personnel were concentrated in relatively few countries. Some 45 percent of all Soviet technical aid personnel were on assignment in four Arab states -- Algeria, UAR, Syria, and Iraq -- while another 30 percent or more were located in three border nations of southern Asia -- India, Iran, and Afghanistan. About 70 percent of the East European technicians were assigned to Africa; about half were located in Libya and Tunisia, where they were assigned under commercial contract as skilled laborers and medical personnel. About two-thirds of Communist China's technicians were located in four states of equatorial Africa: Guinea, Mali, Tanzania, and Zambia.

Academic Students and Technical Trainees

In 1968 about 16,000 nationals from less developed countries were engaged in academic training in Communist countries. Since the first offer of such training in 1956, Communist programs have enrolled about 31,000 students, of which about 70 percent have been trained in the Soviet Union. One-half of those trained have come from Africa, about one-third from the Near East and South Asia, and the remainder from Latin America and the Far East together. The number of new trainees accepted by the USSR has declined over the last several years as Moscow has apparently limited the number of those enrolled in academic training programs to 11,000 to 12,000 -- the level reached in 1965. Although more selective than in the past, the Soviet program continues to accommodate a number of those students who lack the financial and educational prerequisites for training in the West. Students trained in Soviet institutions make a significant addition to the small pool of professional manpower in some countries, especially those in tropical Africa.

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An estimated 1,700 technical trainees underwent training in Communist countries from the less developed countries in 1968. This number, which includes 1,500 new arrivals, brings to 15,000 the total number who have gone for such training since 1956. The UAR, India, and Iran -- countries with major Communist development projects -- accounted for almost 70 percent of the new trainees arriving in 1968.

Military Credits and Grants

Known Communist military aid extensions, which amounted to something in excess of \$200 million in 1968, fell considerably below the near record level of \$600 million in 1967. The USSR continued to account for the bulk of new commitments which continued to go to the Middle East. In addition to agreements with Syria for \$25 million and Iraq for \$9 million, the USSR is believed to have concluded an agreement with the UAR for a large but still undetermined amount. During 1968 the Soviets also signed agreements with four other Arab countries -- Sudan, Yemen, South Yemen, and probably Algeria -- and renewed offers of arms aid to Jordan and Lebanon, both of whom refused. East European arms aid agreements of \$45 million were at about 60 percent of the level in 1967. The Chinese signed two agreements in 1968 -- a \$4 million pact with Tanzania and a \$1 million agreement with Guinea.

Drawings of about \$400 million on Communist military aid were at about the previous year's level. Reduced deliveries to the Arab states were offset by increased arms supplies to other countries, especially India. A decline in Soviet arms deliveries to the Arab belligerents -- the UAR, Syria, and Iraq -- from an estimated \$275 million in 1967 to about \$225 million in 1968 reflected the near completion of resupply of the estimated half-billion dollars in equipment lost by the Arab countries in the June 1967 war.

Czechoslovakia was the dominant East European supplier of military aid in 1968. Its 1968 deliveries, amounting to around \$40 million, do not seem to have been delayed by the disruptions associated with the midyear Soviet invasion. Communist China delivered a scant \$1 million in arms during the year.

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Military Technicians and Trainees

During 1968 the number of Communist military technicians in the less developed countries rose by about 10 percent to a total of 7,200. Most of these were Soviet technicians assigned to the Middle East, where their role has been significantly enhanced since the June 1967 war. During the year the Soviets stepped up the size of their contingent in the UAR from 2,000 to 2,500 while the number in Syria remained at about 1,100. In the UAR and in Syria, Soviet advisers and technicians have assumed an increasingly important role in training and are in a position to exert a somewhat greater influence over combat preparedness and other aspects of military activity.

The less developed countries sent some 1,500 military trainees to the Communist countries for instruction in 1968 -- a somewhat larger number than in 1967. At the end of 1968, about 3,800 military trainees from the less developed countries were studying in the Communist countries. Since 1954, some 25,000 have received training in the Communist countries. About 85 percent of the total were trained in the USSR.

Trade

Communist trade with the less developed countries in early 1968 reversed 1967's downward direction and rose somewhat as a result of expanded exports. Exports during the first eight months increased by 8 percent, reflecting in large part the jump in Chinese Communist deliveries to Ceylon and Singapore and, to a lesser extent, the higher level of Soviet and East European deliveries to Syria.

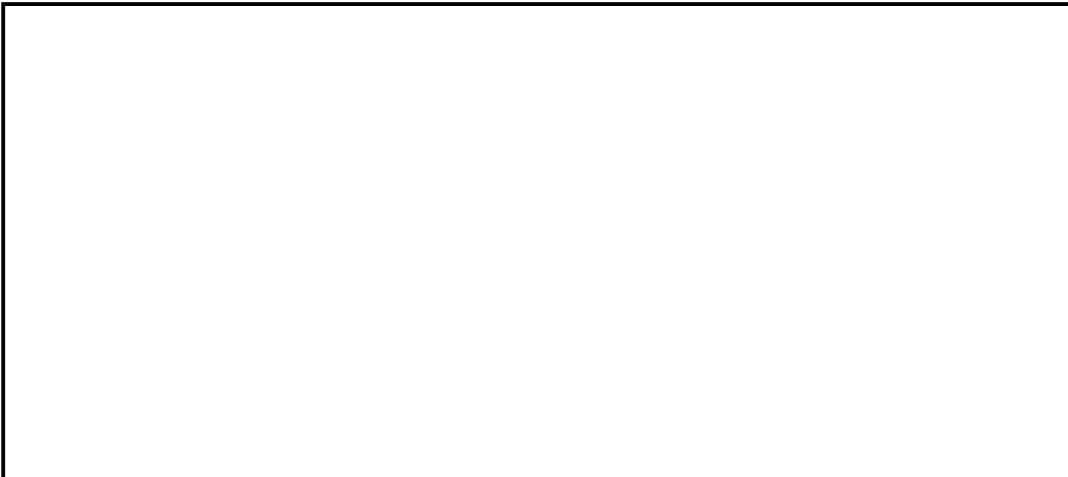
During 1967 the Communist trade turnover of \$4.7 billion with the less developed countries was marked by a further widening of the less developed countries' unfavorable balance of trade as Communist imports fell by 14 percent to \$2.0 billion and exports grew to \$2.7 billion. Soviet trade in 1967 consisted of exports to the less developed countries of \$964 million -- a rise of 8 percent due largely to expanded deliveries to the UAR and Iran -- and imports of \$806 million -- a decline of 11 percent reflecting smaller purchases of

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Argentine wheat and Malaysian rubber. Almost half of Soviet exports in 1967 consisted of machinery and equipment while imports, by contrast, were comprised largely of low value-added commodities such as rubber, cotton fibers, and food. The East European countries widened their normally favorable balance of trade with the less developed countries by expanding exports to \$1.1 billion and lowering imports to about \$890 million in 1967. Communist China's exports of about \$540 million in 1967 were at about the same level as in 1966, but its imports declined by 35 percent to about \$220 million, as a result primarily of a cutback in grain purchases from Argentina.

Although Communist trade accounts for roughly 6 percent of the total trade turnover of the less developed countries, it represents a more significant component of the trade of certain countries. Afghanistan, Yemen, the UAR, Guinea, Syria, Mali, Lebanon, and Ceylon transacted about one-fifth or more of their trade with Communist countries in 1967. Aid and aid repayments have had an important bearing on both the degree and direction of trade for certain less developed countries, particularly Afghanistan, the UAR, and Syria. Economic and military aid deliveries together in 1967 accounted for roughly 40 percent* of Soviet exports to the less developed countries, while scheduled repayments by the less developed countries may have been equivalent to a third or more of Soviet imports from these countries.



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I. Communist Activities
in Less Developed Areas, by Type of Activity

A. MAJOR TRENDS

The general level of Communist foreign aid and trade activity in the less developed areas has shown no appreciable annual growth since 1964-65. Annual drawings of economic aid have steadily declined, although \$6 billion in committed aid remains to be delivered. The value of Communist trade with the less developed countries in 1967 reflected an increase of less than 3½ percent over 1965. Moreover, neither technical assistance nor academic and technical training have expanded beyond their 1965 levels.

Deliveries of military assistance, which were a dynamic element in Communist aid during the early 1960's, appear to have leveled off at a rate of something like \$400 million a year. Although the Soviets, who have provided 90 percent of total Communist arms aid, so far have not denied some form of military assistance to any country seeking it, they have shown a growing concern over the effective use of such aid and a greater selectivity in the kinds and quantities of weapons supplied. The USSR nevertheless has shown a willingness and a capability to respond quickly to requests for military aid: within a year of the Arab defeat by Israel, the USSR had restored Arab inventories of most major weapons virtually to their pre-war levels.

Recently the Soviets also have become more discriminating in their commitments to undertake economic aid projects, undoubtedly reflecting their experience either with projects in backward economies which could not absorb capital aid deliveries on schedule or where unsuitable projects were undertaken. Soviet specialists now usually undertake detailed feasibility surveys before a commitment is made. Moreover, the USSR now extends relatively few comprehensive lines of credit covering multiple undesignated development projects, preferring instead to allocate aid for specific purposes. As a result, Soviet credits have tended to be smaller recently. Of the total number of new credits

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extended during the past four years, almost 70 percent have been for less than \$25 million, while in the 1957-60 period fewer than half were under \$25 million.

In recent years the bulk of the USSR's large-scale capital development credits have gone to four countries along its southern periphery: India, Turkey, Iran, and Afghanistan. Together these countries, which received all but one of the major Soviet development credits extended since 1965, account for about 70 percent of total Soviet economic aid committed during the past four years.

The Soviets have taken a number of steps to raise the level of trade with the less developed countries. In 1967 and 1968 the USSR concluded several special short-term commodity agreements covering purchases of such tropical products as Colombian coffee and Ecuadoran cocoa, coffee, and bananas. The USSR also has agreed in a few cases to purchase some of the manufactures, such as Indian steel rails, produced by industrial enterprises built with Soviet aid in some of the developing countries. Concern over the slow rate of growth of their exports to a number of less developed nations has led Soviet spokesmen to warn that the USSR will not tolerate large import surpluses and that continuing Soviet purchases from the less developed countries depend on their purchases of Soviet goods, particularly machinery. The interest in a greater role for commercial relations between the USSR and the less developed countries is further indicated by the growing number of Soviet credits which, particularly since 1965, have been extended on something like commercial terms, including 3 to 4 percent interest and 5- to 10-year repayment periods.

In sum, while the past several years have seen a continuing flow of Soviet economic, technical, and military aid to the less developed countries, a certain hardening of Soviet aid policy has become evident -- not in the sense of a cutback in aid, but rather a greater selectivity in the type and placement of projects, a more sophisticated concern with the absorptive capacities and repayment problems of the less developed countries, an enhanced awareness of the particular problems of

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individual countries, and a growing concern over the long-run prospects for Soviet relations with the less developed areas of the world.

B. ECONOMIC ASSISTANCE

1. Credits and Grants

a. Extensions

The Communist countries extended new credits totaling \$743 million to the less developed countries of the Free World in 1968, bringing total extensions since the outset of the program in 1954 to about \$10 billion (see Figure 2 and Table 1). The USSR contributed \$316 million, or 43 percent of new aid extensions in 1968; the Eastern European countries \$371 million, or about 50 percent; and Communist China \$56 million.

More than 75 percent of the new commitments were concentrated in two countries -- Iran and Afghanistan. Iran, which has received substantial quantities of Communist developmental aid during the past several years, was extended an additional \$453 million in 1968. The USSR extended \$178 million, largely to expand steel capacity. The Czech credit, of \$200 million, also will be used to develop Iranian heavy industry. Hungary and Rumania also extended substantial new credits to Iran in 1968. Iran will repay this aid largely from its rapidly growing output of oil and natural gas. In 1968, Afghanistan received \$127 million in new economic assistance from the USSR, maintaining its long-term role as a major recipient of Communist aid.

Other large aid recipients during the year were Tunisia, Pakistan, and Syria. Tunisian and Syrian credits of \$51 million and \$25 million, respectively, were extended by East European countries. Pakistan received credits of \$42 million from Communist China and \$3.7 million from the USSR.

Aid negotiations in 1968 reflected the more cautious Soviet approach to project aid and the harder terms evident since 1965. In 1968, for

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Table 1

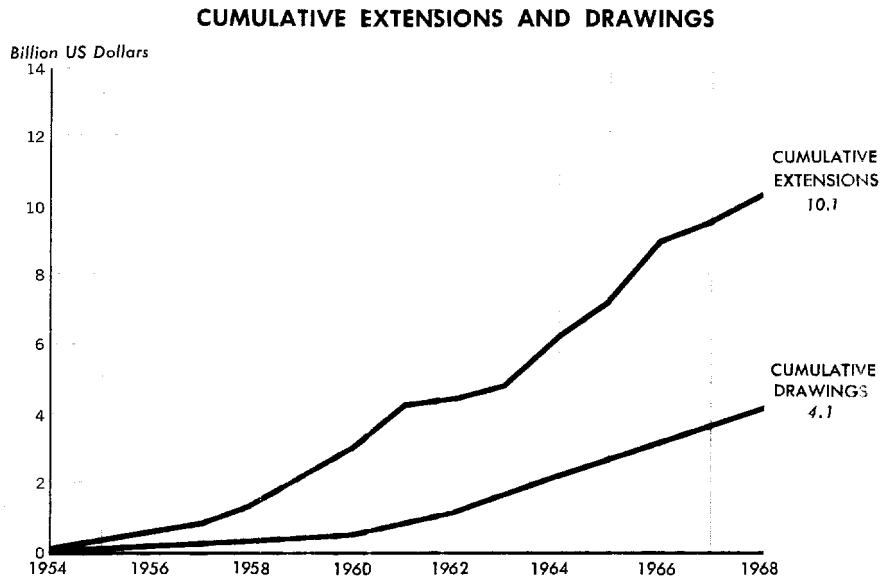
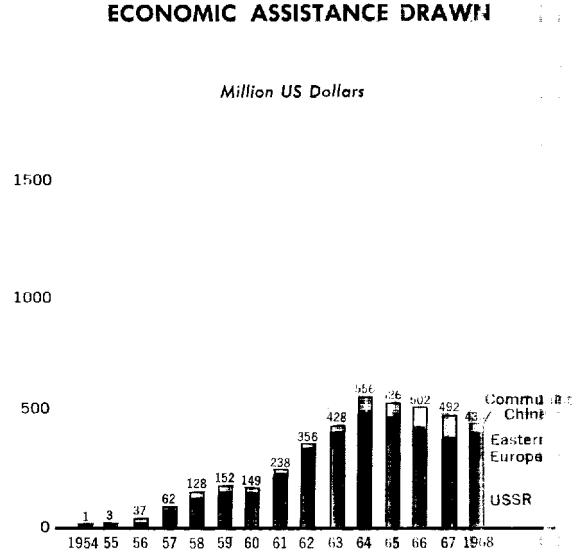
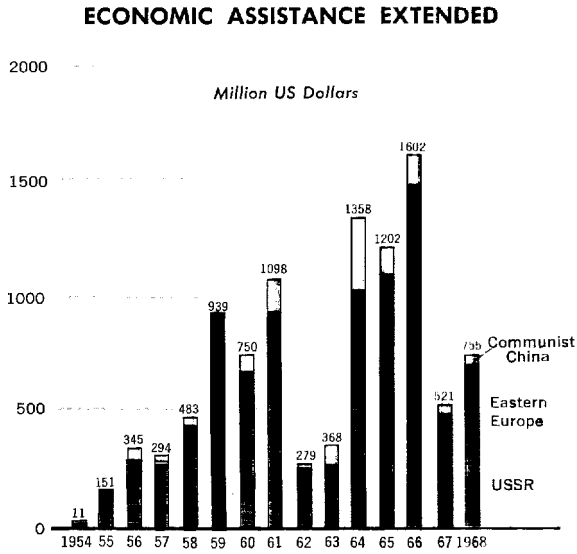
Economic Aid Extended by Communist Countries
to Less Developed Countries of the Free World a/
1968

Million Current US \$

	Eastern Europe									
	Total	USSR	Total	Bulgaria	Czecho- slovakia	East Germany	Hungary	Poland	Rumania	Communist China
Total	742.8	316.1	370.7	30.2	206.0	7.5	40.0	5.0	82.0	56.0
<u>Africa</u>	<u>60.1</u>	<u>5.4</u>	<u>54.7</u>	<u>30.2</u>	<u>0</u>	<u>2.5</u>	<u>0</u>	<u>0</u>	<u>22.0</u>	<u>N.A.</u>
Chad	2.2	2.2	--	--	--	--	--	--	--	--
Guinea	3.5	--	3.5	3.5	--	--	--	--	--	N.A.
Mali	N.A.	--	--	--	--	--	--	--	--	N.A.
Nigeria	N.A.	N.A.	--	--	--	--	--	--	--	--
Tunisia	51.2	--	51.2	26.7	--	2.5	--	--	22.0	--
Upper Volta	3.2	3.2	--	--	--	--	--	--	--	--
<u>Far East</u>	<u>1.0</u>	<u>--</u>	<u>1.0</u>	<u>--</u>	<u>1.0</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Burma	1.0	--	1.0	--	1.0	--	--	--	--	--
<u>Near East and South Asia</u>	<u>664.2</u>	<u>308.2</u>	<u>300.0</u>	<u>0</u>	<u>200.0</u>	<u>0</u>	<u>40.0</u>	<u>0</u>	<u>60.0</u>	<u>56.0</u>
Afghanistan	126.7	126.7	--	--	--	--	--	--	--	--
Ceylon	N.A.	--	N.A.	--	--	--	--	--	--	--
Iran	452.8	177.8	275.0	--	200.0	--	40.0	--	35.0	--
Jordan	--	--	--	--	--	--	--	--	N.A.	--
Nepal	2.0	--	--	--	--	--	--	--	--	2.0
Pakistan	45.7	3.7	--	--	--	--	--	--	--	42.0
South Yemen	12.0	--	--	--	--	--	--	--	--	12.0
Syria	25.0	--	25.0	--	--	--	--	--	25.0	--
<u>Latin America</u>	<u>17.5</u>	<u>2.5</u>	<u>15.0</u>	<u>0</u>	<u>5.0</u>	<u>5.0</u>	<u>0</u>	<u>5.0</u>	<u>0</u>	<u>0</u>
Argentina	5.0	--	5.0	--	--	--	--	5.0	--	--
Chile	5.0	--	5.0	--	5.0	--	--	--	--	--
Colombia	7.5	2.5	5.0	--	--	5.0	--	--	--	--

a. All credits except for a \$2 million grant to Nepal. (See Tables 3 through 7, pp. 61 through 68.)

**ECONOMIC CREDITS AND GRANTS BY COMMUNIST COUNTRIES
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD
EXTENSIONS AND DRAWINGS, 1954-68**



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2. Technical Assistance

a. Non-Military Technicians

In 1968 some 20,000 non-military technicians from Communist countries were employed in 45 less developed countries. Of the total number of technicians, which was roughly the same as in 1967, the USSR again supplied about one-half, Eastern Europe one-third, and Communist China just under one-fifth.

[redacted] the Communist technical assistance programs are characterized by the concentration of technical aid personnel in relatively few areas. Of the 9,400 Soviet technicians working in the less developed countries in 1968, about 45 percent were located in the four major Arab states (Algeria, UAR, Syria, and Iraq) and more than 30 percent in three border nations of southern Asia -- India, Iran, and Afghanistan. More than 45 percent of Eastern Europe's technical aid personnel were assigned to Libya and Tunisia; Libya alone accounted for 26 percent. About two-thirds of the Chinese technicians were located in four countries of equatorial Africa: Guinea, Mali, Zambia, and Tanzania.

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African countries again absorbed more than half of all Communist non-military technicians in the less developed countries. This share of technical personnel, which far outweighs Africa's share of total Communist economic aid, reflects the relatively large numbers of East European and Soviet personnel involved in non-project work in North Africa and the labor-intensive Chinese aid projects farther south. In Libya and Tunisia the majority of the 3,300 East Europeans were employed on a commercial contract basis as skilled laborers and technical and medical personnel. Most of the 1,700 Soviet technicians in Algeria were assigned as medical personnel and teachers or to oil and mineral exploration. Large contingents of Chinese carried out survey work for the Tan-Zam railway, and others were assigned to agricultural development projects in Mali.

Almost 40 percent of Communist technical assistance in 1968 was provided to a half-dozen countries

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in the Near East and South Asia. Well over half of these technicians were employed on development projects. Almost 1,800 Communist technicians assisted the UAR, of whom an estimated 1,000 were Soviet nationals working on the High Dam. Work on a gas pipeline accounted for more than one-fourth of the 900 Soviet technicians in Iran. The Euphrates Dam in Syria employed about one-half of the 650 Soviet technicians in that country.

Communist technicians are continuing to play an important role in implementing assistance projects in the less developed countries, where shortages of skilled technical and managerial personnel are a major factor limiting the capacity to absorb capital investments.

b. Academic Students and Technical Trainees

(1) Academic Students

About 16,000 students from the less developed countries were engaged in academic training in the USSR and Eastern Europe during 1968 (see Table 10*). Of this total enrollment, which was somewhat higher than in the year before, more than three-quarters were being trained in the Soviet Union. Around 2,200 students were enrolled for the first time in the Soviet and East European programs in 1968. China, whose academic training program has been dormant for several years, accepted no new students from the developing countries in either 1967 or 1968.

Students from Africa continued to make up by far the largest regional contingent, accounting for more than one-half the students in training during 1968. Students from the Near East and South Asia made up almost one-third of the total. Other less developed areas represented less than one-fifth of all the students being trained.

Since 1962, when the USSR accepted a record number of new students for academic training, the number of first-year trainees has declined each year. This trend reflects the fact that the Soviet program has not been expanded since 1965, when it reached its present enrollment of 11,000 to 12,000. Therefore, the estimated 1,600 academic trainees who went to the USSR in 1968 filled vacancies rather than new places.

* P. 72.

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An estimated 31,000 students have undertaken academic training in Communist countries since 1956, of which 68 percent studied in the USSR, 30 percent in Eastern Europe, and 2 percent in Communist China. Of the 21,000 who went to the USSR, approximately 6,000 had completed their training by the end of the 1967-68 academic year. It is estimated that about 2,500 of these graduates had been trained as engineers, 1,000 as doctors, and 750 as mathematicians and scientists.

The scale of Communist academic training is small in comparison with that offered in the advanced non-Communist countries. In 1967, for instance, the number of enrollees in the USSR was less than one-fourth of the 48,000 students from the less developed countries in the United States for academic study.

The Communist programs, though more selective than in previous years, remain flexible enough to accommodate a number of those students who lack the financial and educational prerequisites for training in the West. The Soviet program, in particular, offers generous scholarships, including round-trip transportation, full tuition, free medical care and books, and a monthly allowance. For some countries, especially those in tropical Africa, graduates from Soviet training form a significant addition to the supply of professional and technical manpower which is critically needed for economic development.

(2) Technical Trainees

In 1968 about 1,700 nationals from less developed areas received technical training in Communist countries (see Table 11*). This number, which included 1,500 new arrivals, brings to over 15,000 the total number that have gone for technical training in Communist nations since the first trainees were admitted in 1956.

The various Communist technical training programs have prepared skilled laborers, technicians, and administrative personnel, most of whom were trained to work on specific Communist-assisted capital investment projects. The project-related

* P. 77.

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thrust of the programs has meant that most trainees have come from countries in which major Communist development projects were being implemented. In 1968, for example, the UAR, Iran, and India accounted for almost 70 percent of those departing for training in Communist countries.

In the future, Soviet-built technical training facilities in the developing countries are expected to play a growing role in meeting the needs of these nations for skilled personnel. By the end of 1968 the USSR had finished building at least 20 technical training establishments, most of which are located in countries where major Soviet investment projects are under way. An additional 20 such facilities currently are being constructed. As the less developed countries themselves undertake more of the training, the program in the USSR will lay increasing stress on the more sophisticated and specialized types of training which the less developed countries will have only a limited capability to provide. Consequently, there is little likelihood that these countries will cut back on the number of technical trainees sent to the USSR each year.

C. MILITARY ASSISTANCE

1. Credits and Grants

a. Extensions

New Communist military aid commitments amounted to at least \$200 million in 1968 -- considerably below the high level of \$600 million in 1967 (see Table 2). The USSR accounted for about 75 percent of Communist arms aid extended in 1968. The remainder was extended by Czechoslovakia, Bulgaria, and Communist China. Since 1954 the Communist countries have concluded arms agreements totaling almost \$6 billion. The decline in 1968 reflected smaller Soviet extensions to the Arab countries, which had nearly restored their inventories to pre-war levels under a series of agreements concluded in the second half of 1967.

The bulk of new Soviet aid consisted of commitments made to the Arab countries, as new agreements with the UAR for a large but undetermined amount, with Syria for \$25 million, and with Iraq for \$9

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Table 2

Military Aid Extended by Communist Countries
to Less Developed Countries
1955-68

Million Current US\$

<u>Year</u>	<u>Total</u>	<u>USSR</u>	<u>Eastern Europe</u>	<u>Communist China</u>
1955-58	1,112	636	455	21
1959	36	30	1	5
1960	569	556	6	7
1961	847	832	15	--
1962	371	371	--	--
1963	389	384	5	--
1964	1,003	984	15	4
1965	382	283	45	54
1966	344	322	15	7
1967	611	535	75	1
1968	203	153	45	5
Sep 1955- Dec 1968	5,867	5,086	677	104

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million were concluded during the year (see Table 12*). These agreements are substantially smaller than the \$305 million extended to the Arab belligerent states in 1967. Soviet arms agreements with other Arab states in 1968 included the first arms accords with South Yemen and Sudan, a pact with Yemen, and probably a new agreement with Algeria. The Soviets also made arms offers to Jordan and Lebanon in 1968. In addition to its agreements with the Arab states, the USSR concluded a sizable arms pact with India and accords of lesser value with Cambodia and Nigeria.

In 1968 the USSR appeared to be intensifying its close control over the requirements and use of its arms aid, particularly in the Middle East. While continuing to replace the arms losses of its Arab clients, the Soviets meted out supplies with increasing concern for Arab abilities to absorb and use such equipment effectively. New agreements with the UAR and Syria during the second half of 1968, in contrast to those concluded immediately following the June war, were signed only after considerable deliberation. Both of these Arab states apparently received less than requested. In the case of Syria, which reportedly received only 5 to 15 percent of its request, the USSR demonstrated its dissatisfaction with existing use of Soviet equipment by reportedly curtailing deliveries for a time in 1968. South Yemen also was promised only a part of its request for arms, apparently reflecting Soviet concern over the political and economic uncertainties in that country as well as the experience in nearby Yemen, where despite sizable doses of Soviet military aid, the military situation is still stalemated.

b. Drawings

Drawings on Communist military aid of about \$400 million in 1968 were about the same as in 1967 (see Tables 13 and 14**). Reduced deliveries to the Arab states were offset by increased arms supplies to most other countries, especially India. The USSR accounted for about nine-tenths of the total Communist aid delivered. Most of the remainder was

* P. 79.

** Pp. 87 and 88, respectively.

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supplied by Czechoslovakia, while Bulgaria, East Germany, and Communist China made small deliveries during 1968. Since the inception of the Communist military assistance program in 1955, the less developed countries have drawn about \$5 billion, or 80 percent of the military aid extended by the Communist countries. This rate, which is roughly double that associated with drawings under economic aid agreements, indicates the faster implementation and more immediate impact of military aid.

The UAR, Syria, and Iraq continued to account for the bulk of Soviet arms deliveries (see Tables 15 and 16*). The UAR alone received an estimated \$115 million, or about one-third of Soviet arms deliveries in 1968. The level of Soviet deliveries to the three Arab belligerents, however, declined from \$275 million in 1967 to about \$225 million in 1968 as replacement of their June losses of an estimated half-billion dollars neared completion. At year's end, Egyptian air and ground forces inventories of most major categories of combat equipment were between 80 and 90 percent of pre-war level. Syria's aircraft inventories were above pre-war levels and its ground forces losses had been largely replaced. Iraq's holdings of most categories of equipment were considerably higher than before the June war.

Indian drawings on Communist military aid tripled and reached \$90 million in 1968, as large numbers of Soviet fighter-bombers and a submarine and two escort vessels were delivered. This flow is expected to continue with about half of the 107 SU-7 fighter-bombers on order, as well as substantial numbers of fighter aircraft and possibly tanks, still to be delivered. Deliveries to Iran increased slightly to \$20 million in 1968 as the USSR moved ahead with implementation of the large \$110 million 1967 agreement.

East European deliveries came largely from Czechoslovakia and consisted primarily of jet trainers and land armaments for Iraq, some ground forces equipment to Morocco, and small amounts to the UAR and Syria. East Germany provided Tanzania with two patrol boats and Bulgaria made minor

* *Pp. 89 and 91, respectively.*

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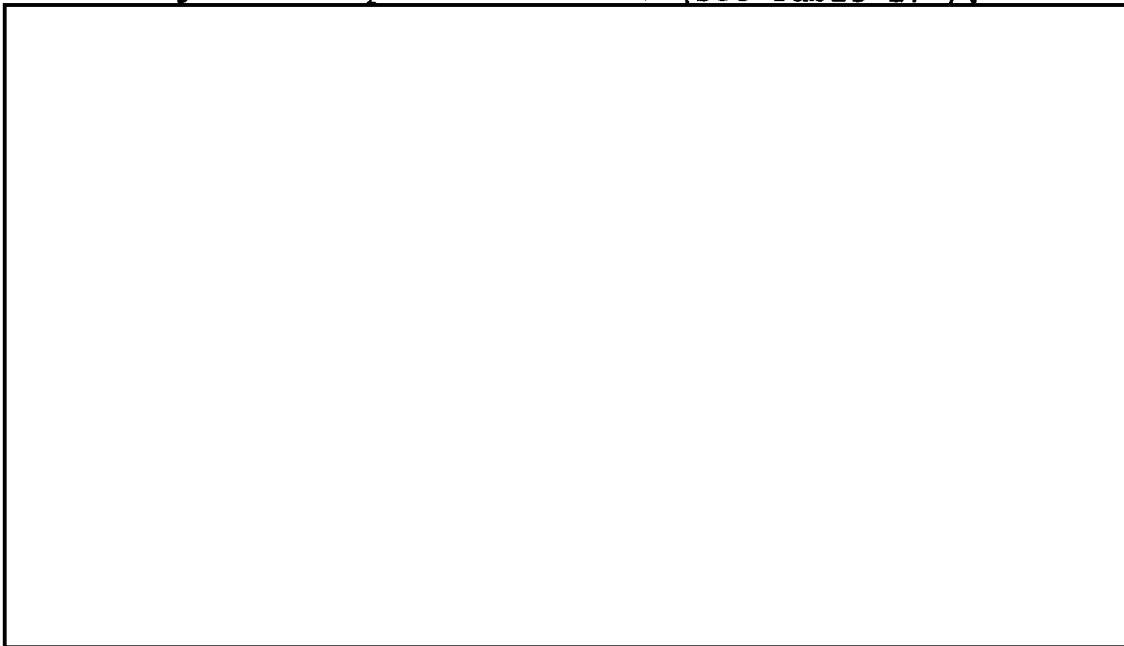
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military aid deliveries to India and Iraq. Communist China's small deliveries of arms in 1968 were to Guinea, Tanzania, and Cambodia.

2. Technical Assistance

a. Military Technicians

The estimated number of Communist military technicians in less developed countries rose to about 7,200 in 1968, a 10-percent increase over the high number present in 1967 (see Table 17*).



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b. Military Trainees from Less Developed Countries

During 1968, at least 1,500 nationals from eleven less developed countries enrolled in military training programs in Communist countries, representing a somewhat larger number than in 1967 (see Table 18**). The largest numbers of new trainees come from the Arab countries -- Algeria, Iraq, Syria, and the UAR -- as a part of the intensified Soviet military technical assistance program in these countries. The Sudan sent its first trainees to the USSR following the signing of its

* P. 92.

** P. 93.

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first Communist arms aid agreement early in the year. Afghanistan, Guinea, India, and Tanzania sent significantly lower numbers of trainees than in 1967.

At the end of 1968, about 3,800 military trainees from less developed countries were being trained in Communist countries. More than 90 percent of these trainees were located in the USSR, while the rest were divided between Eastern Europe and Communist China.

Algeria had the largest contingent -- about 25 percent of the total -- of trainees undergoing Communist military training in 1968. Other Arab countries, plus Afghanistan, Congo(B), Guinea, India, Indonesia, Somalia, and Tanzania, also had sizable numbers enrolled. Since 1955 a total of approximately 25,000 military personnel from less developed countries have been sent to Communist countries for training. About 85 percent of this number were trained in the USSR.

D. TRADE

1. Value

a. 1968

Preliminary data suggest that the Communist countries increased their exports to the less developed areas by perhaps 8 percent in 1968, while imports from these areas appear to have remained at about the 1967 level. The rise in exports was led by a sharp jump in Chinese Communist deliveries to Ceylon and Singapore, which increased at an annual rate of \$35 million and \$68 million, respectively, during the first eight months of 1968. Higher Soviet and East European exports to Syria were an additional factor in the rise in total exports.

Communist imports in 1968 were highlighted by an increase on the order of one-third in Eastern Europe's purchases from Latin America and by a partial shift in the source of Communist cotton purchases. East European imports from Brazil appear to have risen by roughly \$25 million, and those from Peru and Colombia also grew significantly. A large share of the Egyptian cotton previously exported to

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the Communist countries was shifted to hard currency areas, sharply reducing the level of Communist imports from the UAR in 1968. Communist cotton purchases were partly shifted to the Sudan, resulting in an increase of almost 50 percent in Communist imports from the Sudan in 1968.

b. 1967

Total Communist trade with the less developed countries in 1967 declined by 3 percent below its 1966 level -- the first decline in more than 10 years (see Figure 3).^{*} This turnaround was caused primarily by an 11-percent drop in Soviet imports and by a sharp fall for the second straight year in Chinese Communist imports from these areas. Total Communist imports from the less developed areas in 1967 fell by 14 percent to a level of \$2.0 billion, while exports increased by 6 percent to a record total of \$2.7 billion. This gain was smaller than annual gains in the preceding 5 years, as significant increases in Soviet and East European exports were somewhat offset by a slight reduction in exports from Communist China.

Soviet exports to less developed countries rose by 8 percent in 1967, resuming a long-term upward trend after their stagnation in 1966. The record total of \$964 million was attained in spite of the continued decline in Soviet economic aid deliveries that started in 1965. The increase in 1967 was chiefly due to a \$83 million rise in exports to the UAR, which totaled \$281 million, and to a doubling



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of exports to Iran. The sharp drop in Soviet imports, which totaled \$806 million in 1967, was concentrated chiefly in two countries -- Argentina and Malaysia. Imports from Argentina fell by \$84 million to one-fifth of their 1966 level, reflecting the cessation of Soviet grain purchases from Argentina that was made possible by the USSR's successful 1966-67 harvest. Soviet imports from Malaysia fell by \$29 million in 1967, almost entirely as a result of a continued Soviet reduction in the annual imports of crude rubber.

Eastern Europe's trade with the less developed countries in 1967, as in 1966, was at about the same level as Soviet trade with these areas. The previous East European favorable trade balance with these areas increased in 1967, with exports rising by 11 percent, to \$1,099 million, and with imports declining by 4 percent, to \$887 million. The major factor in the export expansion was a twofold increase over 1966 of \$80 million in shipments to Lebanon.

Chinese Communist exports to less developed countries continued at about the same level in 1967 as in 1966, while imports sharply declined by 35 percent. The drop in China's imports was principally a result of a \$78 million decrease in imports of Argentine grain as well as smaller declines in imports from Malaysia (\$15 million), the UAR (\$14 million), and Syria (\$12 million). The substantial rise of \$36 million in China's exports to Singapore in 1967 resulted from a partial shift away from Hong Kong as an entrepot port.

The annual level of Cuban trade with Free World less developed countries continued to decline in 1967. Cuban exports decreased by 8 percent, owing largely to a decline in the world price of sugar; imports were reduced by 52 percent. The trade of Albania, Mongolia, North Korea, and North Vietnam with these countries is insignificant.

2. Distribution and Relative Shares

a. From the Communist Standpoint

The USSR shipped about 10 percent of its total exports to the less developed countries in both 1966 and 1967, but their share of Soviet imports

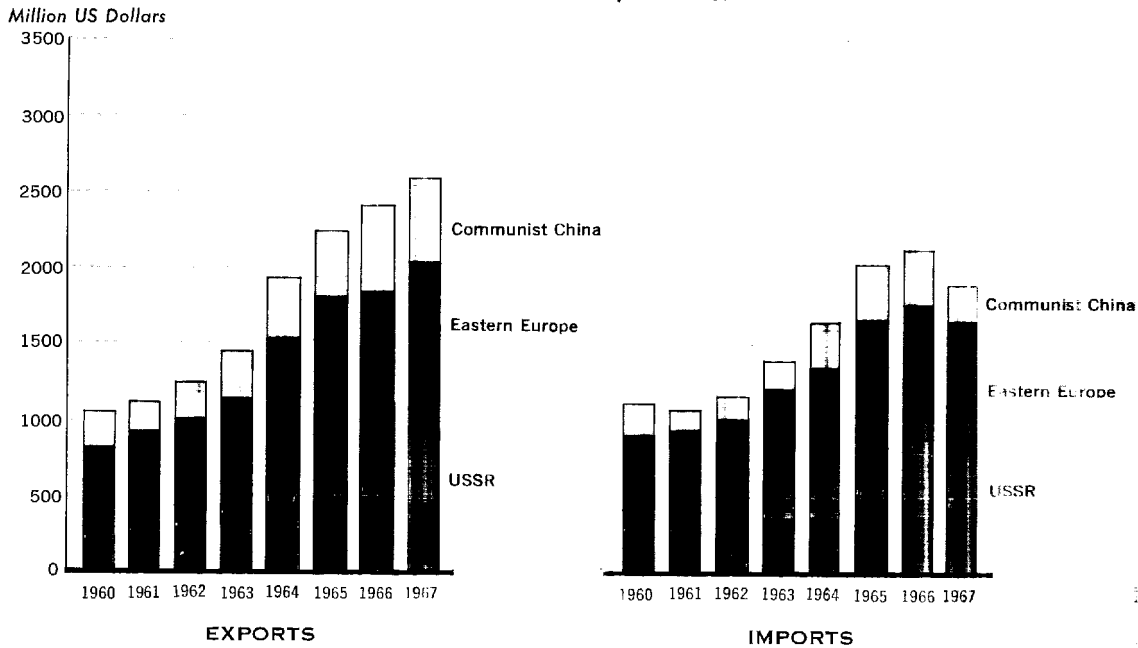
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Figure 3

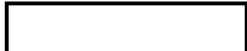
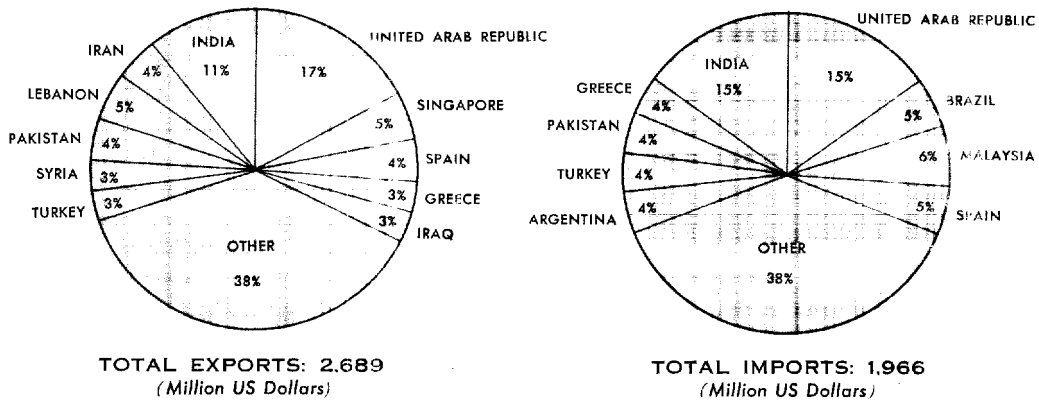
TRADE OF COMMUNIST COUNTRIES WITH LESS DEVELOPED COUNTRIES OF THE FREE WORLD

VALUE OF TRADE, 1960-67 *



*Excluding trade of less developed countries with Albania, Cuba, North Korea, North Vietnam, and Mongolia.

PERCENT DISTRIBUTION, 1967



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declined slightly to 9 percent in 1967. The East Europeans shipped a slightly greater share (8 percent) of their exports and obtained a slightly smaller share (6.5 percent) of their imports from the less developed countries in 1967 than in 1966. These countries' share of China's exports continued at 27 percent, but their share of its imports fell from 17 to 11 percent between 1966 and 1967.

Of the Communist countries' total trade with less developed countries in 1967, the Near East and South Asia together accounted for 63 percent of their exports and 55 percent of their imports. The UAR and India continued to take up the major share of Communist trade with this area (see Figure 4). Africa accounted for 15 percent of Communist trade, while Latin America accounted for 5 percent of the Communist countries' exports and for 13 percent of their imports. The Far East accounted for 12 percent of Communist trade with the less developed countries in 1967, and Europe (Portugal and Spain) for about 5 percent.

b. From the Standpoint of the Less Developed Countries

The Communist countries supplied over 6 percent of the total imports and took slightly less than that share of the total exports of the world's 120 less developed countries in 1967. They accounted in that year for 5 percent or more of the imports or exports of at least 45 of these countries and for at least 20 percent of that for eight of them -- Afghanistan, Yemen, the UAR, Guinea, Syria, Mali, Lebanon, and Ceylon.* The Afghan foreign trade has been traditionally dominated by the USSR, which supplied 63 percent of their imports and 38 percent of their exports in 1967. Almost one-half of the UAR's exports and 36 percent of its imports were accounted for by the Communists that year. If military aid shipments are also included in the imports of Afghanistan, the UAR, and Syria, the Communist shares of their imports would be even greater. Similar classification of military shipments to Iraq would

* For data on the Communist countries' shares of the foreign trade of less developed countries in 1966-67, see Table 20, p. 97. These shares may be overstated somewhat because of the possible inflating of prices negotiated in barter agreements.

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push the Communist share of that country's imports well over one-fourth of the total.

3. Commodity Composition

In 1967, machinery and equipment continued to account for almost half of all Soviet exports to the less developed countries. The major share (61 percent) of these deliveries consisted of machinery and materials for complete installations, amounting to \$274 million in 1967. As shown in the following tabulation, six countries were shipped most of the Soviet exports of machinery and materials for complete installations in 1967:

	<u>Million US \$</u>	
	<u>1966</u>	<u>1967</u>
<i>Total Soviet exports of complete installa- tions to Free World less developed coun- tries</i>	244.6	273.6
Of which:		
India	64.3	90.5
UAR	85.4	80.7
Afghanistan	45.0	28.6
Iran	4.8	22.4
Syria	5.8	21.0
Ethiopia	2.9	16.1

The large share of Soviet exports accounted for by shipments of such goods for complete installations reflects in the aggregate the major emphasis the USSR has placed on industrial plants and other facilities in its foreign aid program.

The dramatic rise of \$114 million in Soviet exports of food to the less developed countries in 1967 consisted largely of a \$68 million increase of wheat shipments to the UAR in that year following the June war. Shipments of wheat to the UAR were terminated in mid-1968. Soviet exports of refined sugar and sunflower oil, which together rose by \$40 million, accounted for most of the remainder of the increase in 1967 food exports.

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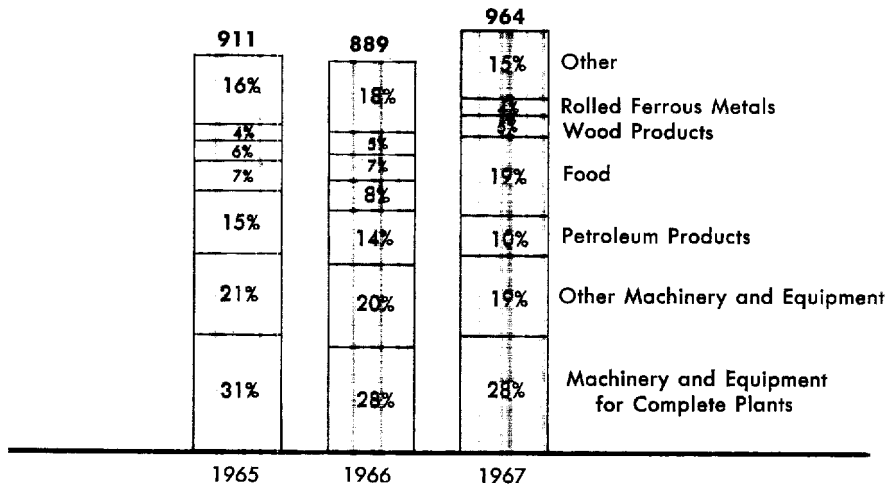
Figure 4

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SOVIET EXPORTS TO, AND IMPORTS FROM LESS DEVELOPED COUNTRIES, BY COMMODITY GROUP * 1965-67

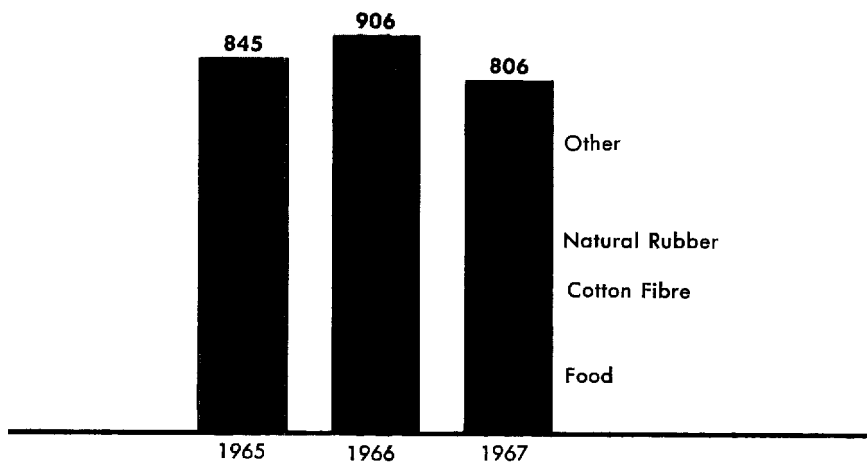
EXPORTS

Million US Dollars

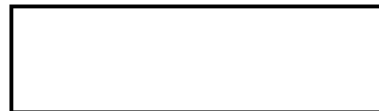


IMPORTS

Million US Dollars



*Based on data from official Soviet trade yearbooks.



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The drop of \$28 million in petroleum exports in 1967 was due chiefly to a sharp decline in shipments to India. The reluctance of the USSR to tie up its tanker capacity on the longer haul to Southeast Asia following the closure of the Suez Canal contributed to this decline.

Lower Soviet imports from the less developed countries in 1967 largely reflected cutbacks in purchases of cotton, rubber, and wheat. Cotton imports, mainly from the UAR, were reduced from \$140 million in 1966 to \$113 million in 1967, reflecting the shortfall in Egypt's 1966 crop and its need to ship cotton to the West to earn hard currencies. Similar influences caused an even greater reduction in Soviet imports from the UAR in 1968. Rubber imports, mainly from Malaysia, fell by \$32 million in 1967. A decline in non-ferrous metals imports, from \$14.6 million in 1966 to \$5.6 million in 1967, resulted almost wholly from an apparent termination of copper imports from Zambia by the end of 1966.

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II. Communist Activities
in Less Developed Areas, by Area and Country

A. AFRICA*

1. Algeria

The USSR further strengthened its relations with Algeria in 1968 by entering into a significant long-term trade agreement and by probably signing an additional military aid pact. These actions were spurred in part by Algeria's renewed emphasis on socialist goals as well as by the Soviet and Algerian intention of further reducing the influence of France and the West in general. The Soviets also undoubtedly hope to use Algeria as a propaganda model to influence other countries to follow the socialist path.

Economic developments during the year were highlighted by the signing in December of a Soviet-Algerian seven-year trade pact. In return for its equipment, the USSR agreed to purchase annually at least 5 million hectoliters of wine -- about three-quarters of Algeria's current annual output. By its acceptance of this large commitment for wine, the USSR assured Algeria of a long-term market and replaced France as Algeria's major wine customer. In addition to wine, the USSR agreed to purchase at least 500,000 tons of Algerian oil annually. This amounts to about 10 percent of the crude oil now marketed by the Algerian state oil company (Sonatrach). The wine purchases alone would be worth an estimated \$50 million annually at world prices -- about three times the value of total Algerian exports to the USSR in 1967. Algeria's exports to the USSR in 1967 amounted to about \$16 million, of which wine amounted to about \$6 million (450,000 hectoliters).

The USSR also continued projects under the \$227.8 million credit extended in 1963-64. A number of small and medium-sized dams have been completed; agricultural equipment has been delivered; and petroleum exploration and drilling operations are continuing. The contract for the Annaba steel

* See Figure 5.

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mill was concluded in the fall of 1967, and construction is reportedly now beginning.

Soviet military aid deliveries to Algeria continued at a reduced level during 1968, indicating the near completion of the May 1965 Soviet-Algerian arms agreement. These deliveries included two T-43 class fleet minesweepers -- the largest ships in the Algerian naval inventory -- and six P-6 class motor torpedo boats as well as tanks, armored personnel carriers, two MIG fighters, and one helicopter. New Soviet military assistance to Algeria probably was provided in the second half of 1968 when several Soviet military delegations visited the country. Some 50 Soviet naval technicians are now providing training for the Algerians at Mers-el-Kebir, the former French naval base that was turned over to the Algerian navy in February.

2. Congo (Brazzaville)

The increasingly military-dominated regime in Congo (Brazzaville), which by October had succeeded in displacing the former civilian government, has given no sign of wishing to terminate Communist economic aid. On 2 October the Soviet Ambassador presented an AN-24 as a gift, and the new Chief of Staff was invited to visit Moscow in November. In the middle of the transition, the Chinese contracted to provide continued engineering assistance until April 1969 for the broadcasting station they constructed.

Prior to the coup, aid developments were limited. In February, China agreed to help build a boatyard for constructing small wooden boats. The agreement covering Soviet secondary school teachers was renewed in June. In August, an agreement was signed with Communist China covering establishment of a \$1 million experimental livestock farm at Kombe to be financed under a 1964 credit.

3. Ghana

Ghanaian economic relations with Communist countries, virtually broken when Nkrumah was overthrown in 1966, appeared to be on the mend during early 1968. In October, however, strong disagreement with the USSR developed from Ghanaian seizure

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and detention of Soviet trawlers and their crews on suspicion that they were engaged in subversive activity. Prior to this incident, Ghana signed in June a protocol to its 1967 trade agreement with the Soviet Union and the USSR sent a technical assistance team to survey three Soviet aid projects that had been dormant since 1966. Results of the survey were given the Ghana government by September, but no decision on liquidation or resumption of the projects appears to have been made.

In early 1968, Poland agreed to reschedule Ghana's debts of over \$10 million. The Communist countries' share of Ghana's trade continued to decline in 1968, constituting about 5 percent of Ghana's imports and some 7.5 percent of its exports.

4. Guinea

The major new undertaking in Guinea was the Guinea-Mali railroad, which the Chinese agreed to aid during the year; however, the coup in Mali has placed the entire project in doubt. The agreement provided for Chinese aid in the construction of a 200-mile railroad, estimated to cost \$50 million, between Kouroussa in Guinea and Bamako, the capital of Mali. Although details of the agreement have not been disclosed, they possibly are similar to those of the Chinese - Tan-Zam railroad agreement (see 10, below) and may involve an interest-free loan from China. Original plans may also have included rehabilitation of the existing Guinea railway and improvement of the port at Conakry, but whether these might now be considered as independent projects is not clear. Chinese technicians arrived in Guinea in November for preliminary route survey work.

The only other new development agreement was signed with Bulgaria in January, providing for a joint company to exploit Guinean timber, exporting it from southern Guinea on the railway serving the Lamco mine in Liberia. Bulgarian assistance would amount to about \$3.5 million.

During 1968, several arms shipments by the USSR and one by China were made to Guinea. Guinea is believed to have signed its first arms agreement with Communist China in 1968. The agreement was probably signed in July, and the delivery of small arms and ammunition followed in September.

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5. Mali

The 19 November 1968 coup installed leaders who apparently intend to reorient Mali's economy toward the West. Although economic relations have not been broken with any Communist country and Communist technicians remain in Mali, the future of Communist aid activities is in doubt.

The principal project likely to be affected is the construction of a 200-mile link between the existing rail systems in Mali and Guinea. An agreement for the project was signed in Peking on 24 May 1968, and a Chinese rail survey team arrived in Mali in August. The only other development project the Chinese began during the year was construction of a tannery on the outskirts of Bamako; there were some indications that a shoe factory is planned as an adjunct. The Chinese-built textile plant at Segou began production on 21 May. On 23 January an agreement for continued Chinese technical assistance was signed. In February a 19-man Chinese medical team arrived in Mali, and most were assigned to staff a hospital at the Niger Project, where 250 to 350 Chinese technicians are located. Chinese technicians in Mali are estimated at 800.

Malian-Soviet disagreements arose during the year over several aid projects. The Malians, believing signs of oil justified further exploration, were unhappy when the USSR stopped prospecting after drilling a second dry well. Two new AN-24's were delivered to Air Mali to replace older Soviet planes, but they were grounded for a month when the Soviet pilots insisted that Malian pilots recently returned from training in the Soviet Union undertake further training before flying as co-pilots in the AN-24's. One positive development was a Malian-Soviet accord on cooperation in education that was signed in June. Soviet technicians in Mali number an estimated 350.

It is as yet unclear how the overthrow of the Keita regime will affect Mali's Communist military aid programs. No major items of military equipment were delivered in 1968 by any Communist supplier. Exchanges in 1968 of military delegations by Mali with the USSR and Communist China raised some speculation concerning new military agreements, but no firm evidence of such agreements existed by the year's end.

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6. Morocco

In a continuing effort to find new sources of aid and trade, Morocco signed a number of economic scientific, and technical assistance agreements with Communist countries in 1968. The USSR agreed to construct a 110,000-kw thermal powerplant at Jerada, opened a consulate general in Casablanca and a cultural center in Rabat, and signed a new five-year trade agreement which promises to double the already substantial trade (\$40.3 million in 1967) between the two countries.

During the October visit of Soviet fleet units to Casablanca, the USSR is reported to have offered a gift of spare parts for the MIG aircraft in Morocco's inventory. These Soviet-provided aircraft have been in storage since late 1965 because of a lack of spare parts and trained pilots.

Czechoslovakia agreed to construct and equip a tank training center in Morocco under the July 1967 Czech-Moroccan military aid agreement. In January a team of Czech technicians arrived in Morocco to assist in plans for the center. Deliveries of major ground forces equipment under the 1967 agreement were believed to have been completed in early 1968.

7. Nigeria

Nigeria's continuing need for military assistance and political support for its efforts to crush the Biafran rebellion led to expanded Nigerian-Soviet aid ties during 1968.

In November, Nigeria and the USSR signed a general agreement on technical and economic cooperation, the first between the two countries. The agreement involved a Soviet credit of an undetermined amount. Specific projects to be implemented under the agreement will be decided in future negotiations. The Soviets also renewed an earlier offer to build a modern teaching hospital in eastern Nigeria and expressed interest in training Nigerians in the petroleum industry. Czechoslovakia offered to implement its 1965 \$14 million loan. A joint Nigerian-Hungarian company began construction of a \$1.4 million drug factory in November.

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During 1968, Nigeria concluded three small arms deals with the USSR for a total estimated value of \$9 million. Among the items of military equipment delivered were 16 MIG-17 jet fighters, wheeled vehicles of various types, small arms, and ammunition. Payment for at least a portion of this military equipment was to have been made in Nigerian cocoa. Because of an unexpectedly poor harvest of cocoa, Nigeria may have sought other repayment terms. Czechoslovakia, which had previously sold aircraft and other munitions to Federal Nigeria, reversed its policy in mid-1968 and declared an embargo on all arms shipments.

Soviet, Czech, and UAR personnel continued to assist the Nigerian air force and navy in 1968.

8. Somalia

On 26 August the USSR agreed to a grace period of one to two years on repayments on overdue loans to Somalia. The Soviet Union also agreed in August to provide technicians and to train local personnel to operate Soviet-built fish and meat packing plants. The 1963 loan agreement with Communist China was finally ratified by the Somali National Assembly on 2 June 1968.

In late October the first Soviet arms delivery since early 1967 arrived. It included at least eight MIG-17 jet fighters, armored personnel carriers, field artillery, and antiaircraft guns. Prime Minister Egal claims that these arms were delivered under the 1963 Soviet-Somali military assistance agreement.

9. Sudan

In January and February 1968, Sudan signed its first Communist military aid agreements. These agreements, with the USSR and Bulgaria plus a naval agreement with Yugoslavia, are said to total approximately \$80 million. They call for deliveries of MIG jet fighters, medium tanks, helicopters, transport aircraft, antiaircraft artillery, patrol boats, vehicles, construction equipment, and technical assistance. Soviet renovation of an airfield and establishment of an air force school plus Yugoslav construction of a naval base also are included

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in these agreements. An unknown number of Soviet tanks plus small arms and ammunition arrived in August 1968. Only a few Soviet military technicians have arrived so far. The Bulgarian agreement, limited to providing technical assistance, has not been implemented.

10. Tanzania

Good relations between Tanzania and Communist China were reflected in continued expansion of economic ties during 1968, while new foreign policy differences with the Soviet Union developed and Soviet aid remained limited.

The Chinese-built Friendship Textile Mill, built with about \$8 million in credits extended in 1964, opened in July. It employs 3,000 people and is expected to produce 24 million yards of cotton cloth and 2 million pounds of thread a year. On Zanzibar, the Chinese opened a leather and shoe factory and continued the development of the state farm at Upenja, where they have so far constructed 90 houses. They also are building a stadium that will seat 10,000. The USSR continued a small technical aid program in Tanzania. East Germany's aid to Zanzibar appeared to have been suspended during the year. About 800 Chinese technicians are in mainland Tanzania, including those working on the Tan-Zam railroad.

Tanzania received a small amount of Communist military equipment in 1968. Some Chinese light tanks of a design never previously observed outside China and two landing craft were delivered in January 1968 under the 1966 Sino-Tanzanian arms agreement. Two East German patrol boats arrived during the year, as part of deliveries under the 1964 East German-Tanzanian arms agreement. A Tanzanian military delegation visited the USSR in May 1968 and discussed a Soviet offer to establish an air defense system in Tanzania. The Tanzanians, however, have not accepted the offer, primarily because of the cost. President Nyerere visited Communist China in June 1968 and apparently concluded a \$4 million agreement to help build a naval base at Dar-es-Salaam and to provide four patrol boats.

Communist China, Tanzania's major Communist trading partner, supplied 4.1 percent of its

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imports and 3.7 percent of its exports in 1967. Total Communist trade with Tanzania amounted to about 7.0 percent of imports and 6.9 percent of exports. For the first quarter of 1968, China, the USSR, and Poland furnished about half of Zanzibar's imports, and China and East Germany took over one-fifth of its exports. Trade with Communist China may soon increase considerably. A Tanzanian mission was to visit China in November to arrange for importing goods worth about \$60 million over the next three to five years. The imports would be covered by a credit that Communist China will extend to generate funds to cover local project costs of the Tan-Zam railroad.

11. Tunisia

Tunisia continued to expand economic and cultural relations with the USSR and East European countries despite President Bourguiba's pro-Western foreign policy and his condemnation of the Warsaw Pact invasion of Czechoslovakia. In July, Bourguiba made his first state visit to Communist countries -- Bulgaria and Rumania -- and Tunisia signed credit agreements totaling some \$50 million with these two countries and East Germany.

The \$27 million credit from Bulgaria -- the second largest from a Communist country -- was signed in April. Bulgaria will supply equipment and technical assistance for the mining industry. The credit will be repaid mainly by the export of 275,000 metric tons of Tunisian phosphate rock each year from 1968 to 1972 and 700,000 tons annually during the 1972-86 period. Under the \$22 million credit signed with Rumania in July, the Rumanians will provide mining equipment and assistance in geological, mining, and petroleum projects and will also assist in the creation of a central control system for the Tunisian railways. Tunisia will repay the loan by exports of phosphate rock, lead, zinc, and other nonferrous minerals.

The Soviet-Tunisian trade agreement of 1962 was renewed in October to cover 1969-72, with provision for an annual increase of 12 to 15 percent.

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12. Zambia

Except for the Tan-Zam railroad, little progress has been made under the 1967 aid agreements with the Soviet Union and Communist China. At the beginning of 1968 a Chinese survey party made a preliminary survey of the Zambian portion of the Tan-Zam railroad route similar to that undertaken earlier on the Tanzanian side. In April, Communist China, Zambia, and Tanzania signed supplementary agreements covering the survey and design work, the use of Chinese technical personnel, and financing and accounting arrangements. The 680 Chinese technicians agreed upon for the survey and design work have probably all arrived; about 350 are thought to be in Tanzania and some 300 in Zambia. The survey and design agreement provided that the work is to be completed in approximately two years after the survey teams arrived, but Chinese team leaders have announced that they hope to finish sooner.

The USSR agreed in January to provide four diesel power stations for the rural electrification project envisaged in their 1967 agreement, but no equipment had arrived by the end of 1968. Ten Soviet faculty members for the medical and engineering schools at the University of Zambia arrived, but none of the promised equipment for the two schools. There are no known project agreements under the 1967 Chinese economic aid agreement, although some of the \$16.8 million credit has been used for government imports of Chinese consumer goods to be sold locally. A Rumanian delegation signed an economic cooperation agreement in May and made a general offer of technical assistance and equipment for mining, forestry, agriculture, and construction.

B. FAR EAST*

1. Burma

Since the rupture in aid relations with its erstwhile principal aid giver, Communist China, in 1967, Burma has been less receptive to Communist proffers of assistance despite the obvious need for external help.

* See Figure 6.

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About \$60 million is unspent from the \$84 million interest-free credit extended by the Chinese in 1961. Trade relations with China also were suspended with the termination of aid projects. However, to bolster their sagging foreign exchange reserves, the Burmese reportedly favor the resumption of trade in minerals, particularly pig lead.

Trade and aid contacts with the Soviet Union and its East European allies remained at a low level in 1968. The Soviet aid program was completed with the termination of the Kyetmauktaung Dam projects in November 1967. A Soviet economic delegation visiting Rangoon in July 1967 tried to interest the Burmese in forming closer aid ties with the Soviet Union. They reportedly offered to fill the aid gap created by the Chinese departure, but the Burmese reportedly were not receptive to the Soviet overtures. The Burmese are averse to any more entanglements with big Communist powers and are even more opposed to seeing Burmese neutrality compromised. While generally reticent about seeking external assistance, Burma prefers to obtain aid from countries which are less involved in big power politics.

Burma was the recipient of two small credit extensions by East Germany and Czechoslovakia during the fiscal year ending 30 September. Czechoslovakia provided \$1 million of credit for tractors which the Burmese have found unsatisfactory for their needs and East Germany agreed to construct a printing plant, valued at \$2.8 million, which it had offered previously under its 1966 credit to Burma.

2. Cambodia

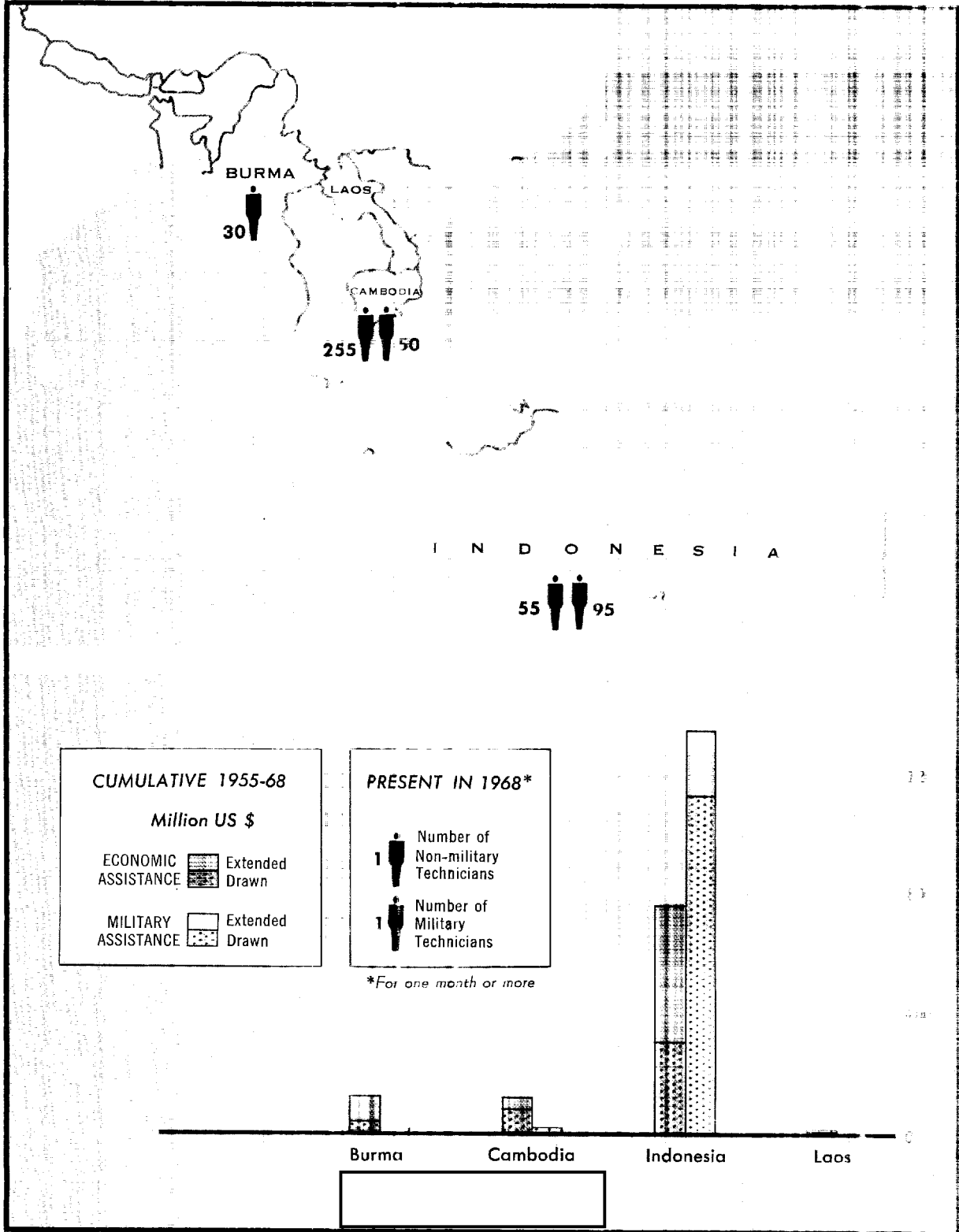
Cambodia did not sign any new economic aid agreements with Communist countries in 1968, but deliveries continued under prior agreements. Communist China was the largest supplier of economic aid, and the following Chinese aid projects were completed during the year: a textile plant in Battambang, a glass factory, expansion of the airport at Siem Reap, and a laboratory at the university in Kompong Cham. Work continued on the expansion of the cement plant. The USSR continued to supply material and specialists for earlier Soviet projects such as a hospital and

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COMMUNIST ECONOMIC AND MILITARY ASSISTANCE TO THE FAR EAST

Figure 6



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an institute of technology. The USSR, Communist China, and North Vietnam rushed shipments of vaccine when a cholera epidemic threatened Cambodia in midyear. Other Communist countries such as East Germany and Rumania provided minor amounts of aid such as agricultural pumps and some laboratory equipment.

In February, Cambodia concluded its fourth military assistance agreement with the USSR. Under the agreement, valued at almost \$6 million, Cambodia is to receive a MIG jet trainer, radar equipment, some armored personnel carriers, artillery, anti-aircraft guns, and mortars as well as small arms and ammunition and spare parts for equipment delivered under previous agreements. Some of this military equipment was formally presented to Cambodia at a ceremony in Phnom Penh on 2 December 1968. In a similar ceremony at Pochentong airport on 4 January 1968, Communist China formally presented Cambodia with military equipment actually delivered in 1966. During the year, Communist China made some minor deliveries, probably under the November 1965 military aid agreement.

3. Indonesia

Indonesian economic relations with the Communist countries continued to mirror the deterioration of political relations since 1965. No new Communist economic credits were forthcoming in 1968, and the Soviet economic aid program was at a virtual standstill during the year.

However, a few East European projects were completed during the year. The Tonasa cement plant, for which Czechoslovakia supplied the machinery, was opened in November, East German printing equipment reportedly was installed in November, and a spinning mill at Palembang, built with East German equipment, was scheduled for completion in December. Hungary delivered 30 railway cars to Indonesia in late August. In March 1968 the Indonesians ratified the debt rescheduling agreement concluded with the USSR in 1966 but failed to meet installments totaling \$12.4 million due in 1967 and 1968 for short-term debt under the agreement. Debt rescheduling negotiations planned for the fall of 1968 were postponed

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by the USSR following the execution of several top Indonesian Communist Party leaders in October. In December, Indonesia concluded a debt rescheduling agreement with Rumania, leaving Poland the only East European Communist country which has not rescheduled Indonesia's debts.

In 1968 the USSR continued limited deliveries of spare parts to the Indonesian air force and navy under the \$10 million cash agreement of September 1967. As a result of these deliveries, some units of the Indonesian air force and navy -- almost totally inactive prior to the agreement -- have again become operational.

Indonesia's trade with the Communist countries in the first part of 1968 was substantially below the level in 1967. If continued, this would be the second sharp drop in annual trade since the coup in 1965. During 1967, trade was maintained at about the same level as in 1966 with Indonesian exports about \$54 million and imports about \$79 million. About nine-tenths of Indonesia's exports in 1966 and 1967 were to the USSR and Eastern Europe while the bulk of its imports were from Communist China.

4. Malaysia

Malaysia expanded its economic contacts with the USSR and East European countries in 1968. In July a Soviet trade delegation visited Kuala Lumpur in an effort to expand sales which characteristically have been small in relation to purchases from Malaysia. The USSR has been one of the leading buyers of Malaysia's major export commodity -- natural rubber. During the year the Soviets also approached the Malaysians with offers of project assistance. At least one such offer, for assistance in constructing a highway, was being considered by the Malaysian government. Bulgaria and Rumania also were active in sending trade missions to Malaysia in 1968. As a follow-up to the March visit by a high-level Bulgarian mission, the Malaysians signed a trade agreement. In October the Bulgarians opened a trade office in Kuala Lumpur and in early 1969 established diplomatic relations with Malaysia.

Despite the absence of formal commercial relations, Communist China continued to be a major trading partner of Malaysia.

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5. Philippines

The official Philippine policy of not recognizing or trading with Communist countries showed continued signs of easing in 1968. In October the Philippine Chamber of Commerce sponsored the visit of a trade mission to several East European countries and the USSR. Upon the return of the mission to Manila, President Marcos convened the Foreign Policy Council to discuss Philippine policy toward the Communist world. The Council recommended trade on a "limited, ad hoc, selective, commodity-by-commodity, case-by-case basis," but the matter of diplomatic ties was deferred. The worsening of the Philippine trade deficit and a sharp deterioration in the balance of payments have given a special impetus to the development of wider trade contacts. The Marcos administration is expected to proceed cautiously in formalizing contacts with East Europe and the Soviet Union, but it would seem only a matter of time before diplomatic and trade relations with at least some of these countries eventuate.

A further small break with the traditional Philippine policy of avoiding direct trade with any Communist country was represented by the shipment in September of lumber and coconut oil to Yugoslavia, the first direct export from the Philippines to a Communist nation. The opening of trade with Yugoslavia followed the visit of a Yugoslav trade mission to Manila, the first ever received by the Filipinos from a Communist country. In addition, a 50-man Czechoslovak trade mission was scheduled to visit the Philippines during 1968, but the Soviet invasion apparently caused these plans to be either changed or canceled. Finally, the Philippine government, in another departure from the policies of the past, permitted a Soviet delegation comprising journalists, writers, and scientists to visit the Philippines during 1968.

There have been no significant developments in Philippine relations with Communist China since 1967 when a potential deal involving the purchase of Chinese rice broke down over a Chinese condition that the transaction be made through official government channels and that a Chinese trade mission be opened in Manila.

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6. Singapore

Singapore's long-term trend toward more trade contacts and ties with the Communist world continued in 1968. The Soviet Union became the fourth Communist country to reach agreement with Singapore on the establishment of full diplomatic relations. In 1968 the Soviet Union opened a large trade mission and in January 1969 raised the status of the mission to Embassy rank. Bulgaria also has an Ambassador in Singapore. Small trade missions were set up in Singapore during 1968 by Hungary and Poland, and Czechoslovakia and Rumania seem likely to establish missions within the coming months. Singapore is determined to increase its markets in Eastern Europe and will continue to welcome the establishment and expansion of trade missions so long as they are circumspect about their activities.

Singapore's trade with the Communist countries amounted to about \$182 million in 1967, of which about 75 percent was imports. Communist China continued to be the dominant trading partner, increasing its exports to Singapore by about 50 percent in 1968.

Singapore in 1968 established the International Trade Company (INTRACO) in an effort to control trade and conduct trade negotiations with the Communist countries, particularly with Communist China. The Singapore government has been concerned by the extent to which the Chinese Communists channel trade through a selected group of Singapore merchants and is fearful that Peking might use its commercial position vis-a-vis these firms to engage in subversion.

C. LATIN AMERICA*

1. Argentina

Trade with the Communists in 1967 and 1968 was at a low level compared with that in the previous two years when unusually large grain sales were made to the USSR and mainland China. A lack of interest in initiating closer economic

* See Figure 7.

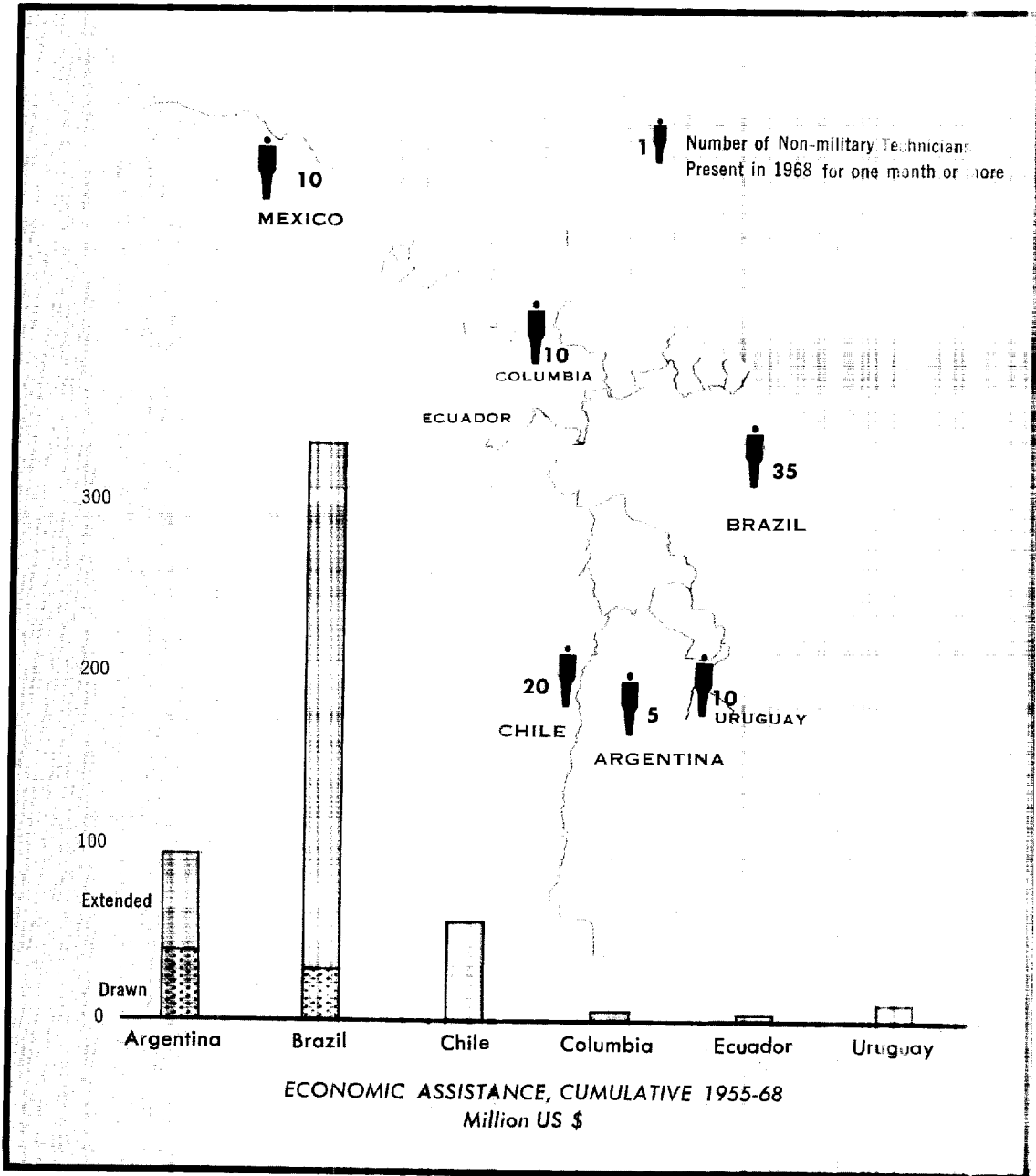
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Figure 7

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COMMUNIST ECONOMIC ASSISTANCE TO LATIN AMERICA



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relations with Communist countries was reinforced during the year by adverse reaction to the Czech crisis, which led to postponement of a scheduled visit by a Polish trade delegation. In addition, conflict over fishing rights with the USSR brought on the Argentine shelling of a Soviet vessel. Soviet representatives pressed without success to open a Moscow-Buenos Aires air route. In contrast to these reverses for the USSR, Poland in September 1968 reportedly extended Argentina a \$5 million credit for construction materials. Czechoslovakia had also offered Argentina a \$15 million military arms credit immediately prior to the Soviet invasion.

2. Brazil

The Communist countries continued their efforts to expand economic relations with Brazil during 1968, but despite superficial activity in this area, few significant achievements were noted.

In 1968, Brazil signed an agreement providing for the purchase of \$10 million worth of Polish machinery and equipment, apparently under a credit agreement signed with Poland in 1962. Soviet technicians completed a feasibility study for the development of a shale oil deposit in Sao Paulo State; construction of the first stage of the complex (the pilot plant) to develop this deposit is scheduled to begin in 1969.

3. Colombia

Communist political and economic relations with Colombia were expanded significantly in 1968. After initialing a new bilateral trade agreement in 1967, the USSR followed up in January 1968 by reopening diplomatic relations with Colombia after a 20-year hiatus. In the fall the Soviets extended a \$2.5 million credit to Colombia which will be used to purchase buses and is to be repaid in 12 years. East European aid relations were highlighted by the signing in January of an East German credit for \$5 million which is repayable over 10 years. The Soviet and East German credits were the first Communist economic aid Colombia has received.

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East European missions in 1968 found Colombia desirous of increased trade. New agreements were signed with Hungary and Rumania and the existing trade agreement with Bulgaria was extended. East European countries actively participated in the Colombian industrial fair, and Colombia in some of the East European fairs.

The Colombian government took several actions in 1968 to expand its sales of coffee to the Communists and to increase domestic purchases of Communist goods. These actions included the allocation of large shares of Colombia's import quotas for vehicles to Soviet jeeps and taxis and the limiting of bidders on public contracts to firms which can supply goods under specific bilateral trade agreements. The Coffee Board and the National Coffee Bank have also facilitated the granting of credits to those importers willing to import goods from certain countries. Colombia has also attempted to increase its earnings of hard currencies, as in its July 1968 agreement with the Soviets, by tying some of its coffee shipments to this form of payment.

Colombia's trade with the Communists, which substantially increased prior to 1967, decreased slightly that year and then resumed its upward trend in 1968. The share of its imports supplied by Communist countries was 3.5 percent in the first third of 1968 compared with 1.4 percent in that period of 1967; their share of Colombian exports was also greater in 1968 (4.4 percent compared with 2.1 percent). Coffee accounted for most of these exports; most of the imports were vehicles and parts, machinery, mineral fuels, wax, and iron and steel products.

4. Costa Rica

Until late 1968 no Communist nation had established a trade or diplomatic mission in Costa Rica. In December, Bulgaria signed an agreement which covered the exchange of products with Costa Rica and provided for the establishment of a commercial delegation with diplomatic status. Two years earlier the Soviets had attempted unsuccessfully to tie purchases of Costa Rican coffee to an agreement with Costa Rica for establishment of a Soviet diplomatic mission. Although the Soviets paid a

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relatively high price for the \$5 million in coffee purchased from Costa Rica in November 1968, there is no indication that diplomatic concessions were requested by the Soviets in connection with the agreement. Deliveries under this agreement were completed by February 1969.

5. Ecuador

There was a marked increase in 1968 in commercial relations between Ecuador and the Communist countries, particularly the Soviet Union. President Jose Maria Velasco not only has continued the previous administration's policy of maintaining trade relations with all countries but in addition, Communist trade mission visits and commercial overtures have multiplied under his regime. This increased activity is in part an attempt to eliminate the large favorable trade surplus Ecuador has earned in its trade with Eastern Europe. This balance had grown to \$6.7 million by mid-1968. To help draw down the surplus, the President was given authority in July 1968 to waive a requirement for public bids on certain public works projects when the required goods can be obtained from those countries with whom Ecuador has a credit balance.

Soviet purchases from Ecuador, which were insignificant in the past, sharply increased in 1968. By the end of 1968 the USSR had purchased with hard currency \$11.5 million worth of cacao, displacing the United States as the largest buyer of that product. It also bought \$2 million of Ecuadoran coffee that year. Ecuador made its first direct shipment of bananas to the USSR in November (worth \$250,000) under barter agreements reportedly providing for the exchange of \$3 million of bananas for farm machinery and cement. The USSR and East Europeans are buying the Gros Michel variety of bananas, which is not as popular as the Cavendish variety in Ecuador's traditional markets.

6. Peru

A trend toward expanding commercial and diplomatic ties with Communist countries was continued by the new Peruvian military government which seized power on 1 October 1968. Diplomatic

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relations were established with Rumania in November and with Yugoslavia in December. A consular agreement was signed with Poland. In addition, commercial agreements were concluded during the year with Czechoslovakia, Hungary, Rumania, and Poland. Credit offers were made to the new government by the USSR and Rumania, but neither these nor the earlier credit offer from Poland were accepted.

7. Venezuela

The major development in Venezuelan-Communist economic relations in 1968 occurred in May with the signing of a \$125 million trade agreement with Rumania. The agreements calls for Venezuela to exchange 11 million tons of crude oil over the next 10 years for Rumanian machinery and equipment valued at \$125 million. Implementation of this agreement will more than double the level of Venezuelan imports from the Communist countries and result in an even more significant expansion in its exports to them.

8. Other Latin American Countries

In response to excessive stocks of coffee, Guatemala and El Salvador have actively sought in 1968 to sell large quantities of coffee to Communist Bloc nations.

In April 1968 a credit agreement was signed by Chile's Development Corporation providing for purchase of \$5 million in machine tools and industrial equipment from Czechoslovakia.

D. NEAR EAST AND SOUTH ASIA*

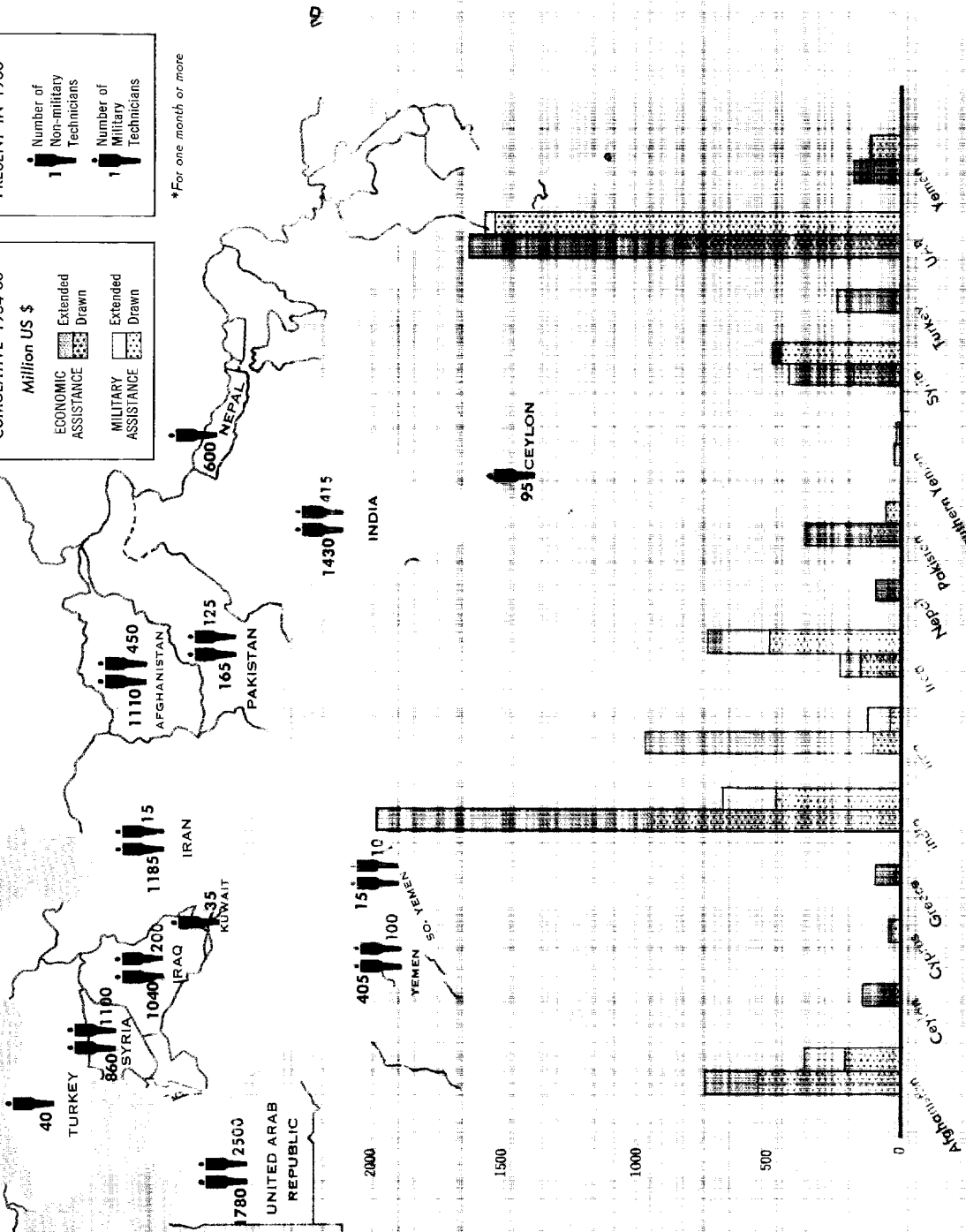
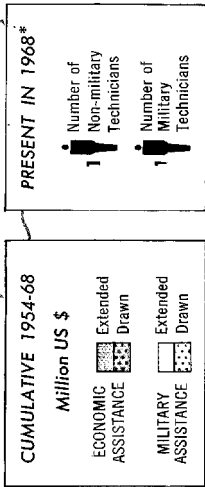
1. Afghanistan

The Soviet Union's economic credits of \$127 million constituted the major aid development in Afghanistan during 1968. The new credits, most of which are for Afghanistan's Third Five-Year Plan, were signed in February after lengthy negotiations. Terms of the credit are distinctly less favorable than those given in the past. The credits also provide financing for uncompleted Second Plan

* See Figure 8.

COMMUNIST ECONOMIC AND MILITARY ASSISTANCE TO THE NEAR EAST AND SOUTH ASIA

Figure 8



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projects as well as commodity assistance. Other Soviet aid activities during the period included the dedication of the Soviet-assisted electric substation at Pul-i-Charkhi, the signing of agreements for the Shebarghan natural gas project and an irrigation network near Ghazni, and a contract to study the possibility of expanding gas extraction. The Chinese Communists signed an agreement to establish experimental tea plantations in the Kunar Valley, and possibly completed the Bagrami textile plant outside Kabul.

Soviet military assistance during the year included the delivery of T-54 tanks, armored personnel carriers, and additional MIG-21 jet fighters, probably under the \$110 million Soviet-Afghan military aid agreement of September 1967. The new aircraft are to form Afghanistan's third MIG-21 squadron. Reports indicate that Afghanistan's first SAM site has been operational since late 1967.

2. Ceylon

Ceylon's relations with the Communist countries have been selectively downgraded since the present moderate government took office in 1965, replacing former Prime Minister Mrs. Bandaranaike's leftist government. During the past year or so the number of technicians from Communist countries in Ceylon has been substantially reduced as projects have been completed and few new ones inaugurated.

The first new Communist aid agreement in three years was concluded in February 1968, when Ceylon signed an agreement for economic and technical cooperation with Rumania under which Rumania will provide an unspecified amount of project assistance and will purchase various products from Ceylon.

In April, Ceylon also reached agreement with the Soviet Union calling for use of the remaining small balance of the 1958 credit. It will be used for expansion of the Soviet-aided iron and steel mill, development of the Ceylon Institute of Scientific and Industrial Research,

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and training of Ceylonese nationals in the USSR. East Germany's Deputy Prime Minister took part in the ceremony to lay the foundation stone of an integrated textile mill, a project covered by the 1965 East German credit agreement. The 1969 rice-rubber barter arrangement with Communist China calls for the exchange of 62,000 tons of Ceylonese rubber (compared with 75,000 tons in 1968) for the usual 200,000 tons of rice. The Chinese continued to agree to a premium price for rubber and a discount price for the rice.

Trade with Communist countries continued to account for about one-fifth of Ceylon's total trade.

3. India

The year 1968 saw continuing close relations in the economic and military supply spheres between India and the Soviet Union, but were strains placed on the relationship. The Indians are disturbed by closer ties between the Soviet Union and Pakistan, as evidenced by the reported Soviet agreement to supply (as yet unspecified) military equipment to Pakistan. The Soviets, in a meeting with the Indians, expressed considerable reservation about the effective use of economic aid by the Indians while the Indians in turn were not entirely pleased with the complexion of the Soviet imports from India.

Though the Indian-Soviet relationship has lost some of its glamor for both sides, it remains important, especially in view of a shared concern over the ultimate intentions of Communist China.

A low level of government investment, attributable in part to the slow recovery of India's capital goods industry and to budgetary stringency, contributed to the low level of drawings on Soviet credits in 1968. Roughly one-half of the drawings were utilized for the Bokaro Steel Plant, the first stage of which is scheduled for completion in December 1971. During 1968 the Soviets completed one more stage of construction of the Heavy Machine Building Plant at Ranchi, Bihar, and the third million-ton unit of the Barauni Oil Refinery on Bihar.

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Total trade turnover between Communist countries and India decreased by 6 percent from 1966 to 1967. Figures for the first half of 1968 indicate that the rising trend in India's imports and exports to these countries continued during 1968, though exports probably rose at a higher rate than imports. The Soviet Union made some highly publicized announcements during the year of its willingness to buy from India over the next few years large quantities of iron and steel products, railroad freight cars, and light engineering products. It appears that Moscow privately is assuming a tough bargaining position in implementing these pledges, including heavy pressure on India to buy Soviet commercial aircraft as a *quid pro quo*.

Soviet deliveries to India in 1968 included some 50 SU-7 fighter-bombers as well as an F-class submarine and two Petya-class escort vessels. Approximately half of the 107 SU-7's on order from the USSR have now been delivered. At least another two submarines and four Petya's are expected, some perhaps in 1969. The domestic production of MIG-21's, meanwhile, continued at the MIG assembly plant at Nasik, where as many as three aircraft per month are being produced.

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4. Iran

One of the hallmarks of Iran's recent shift to a more "independent" foreign policy has been its increasing rapprochement with the USSR. Although aware that the USSR still constitutes a potential danger, the Shah feels strongly that the greatest threat to Iran and to his own position now comes from the radical Arab nationalism promoted by President Nasser of the UAR. Because of this the Shah felt that he could react positively to the Soviet overtures for closer relations

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which had replaced the one-time hostile USSR policy toward Iran.

Iran's economic relations with the USSR expanded significantly in 1968 with the signing of a credit of \$178 million and agreement for several industrial projects. Drawings on Soviet credits rose from \$10 million in 1967 to some \$40 million in 1968 as work moved ahead on a number of projects, including the steel mill and gas pipeline. About 900 non-military technicians from the USSR were working in Iran in 1968.

Iran views its expanding relations with the East European states, not as an extension of its relations with the USSR but largely as a means of providing an additional market for its crude oil. New economic agreements with Rumania, Czechoslovakia, and Hungary providing total credits of \$275 million call for most repayments to be made by delivery of Iranian crude oil in return for machinery and other capital goods. If the agreements are carried out as envisaged, they will give significant added substance to Iran's ties with these countries.

Under the January 1967 arms deal, Iran received an estimated \$20 million of military equipment from the USSR in 1968. Deliveries included 280 armored personnel carriers and about 200 artillery pieces.

5. Iraq

Communist aid relations with Iraq during 1968 were highlighted by four new small military aid agreements. In March the USSR provided a \$9 million credit for purchase of AN-24 transport aircraft and Bulgaria signed a \$2 million credit for artillery ammunition. In May, Czechoslovakia signed a \$25 million agreement for 280 twin 30-mm antiaircraft guns and ammunition, and a \$5 million agreement for 20 more L-29 jet trainers. Communist military deliveries to Iraq in 1968 amounted to an estimated \$70 million, up somewhat from 1967 and second only to that received by the UAR among the Arab countries. Since Iraq sustained only limited losses in the June 1967 war, the subsequent large shipments from the USSR and other Communist countries have tended to increase Iraqi military

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inventories well beyond the prewar level. Among the more important items received in 1968 were 16 SU-7 fighter-bombers and 36 additional MIG-21's. Under way to Iraq at the year's end were two of the four T-43 class fleet minesweepers ordered from the USSR under the May 1966 agreement. Under this same agreement, Iraq is expected to receive eight Komar missile boats on which Iraqi crews are presently being trained.

By contrast, Communist economic aid to Iraq was small during 1968. The only agreement of note was with the USSR in late 1968 which provided for Soviet assistance in developing a fishing industry in the Persian Gulf. In return Iraq agreed to provide berthing and repair facilities for Soviet fishing vessels. Although the USSR submitted a feasibility report on the proposed Euphrates Dam, little or no substantive progress was made in implementing this project which has been under consideration for about a decade.

6. Jordan

In an attempt to break Jordan's predominant aid ties with the West, the USSR offered to provide badly needed military equipment and made some modest economic aid overtures during 1968. King Husayn has been placed under increasing pressure to accept the Soviet offers of military aid for his badly mauled air and ground forces which have replaced only a fraction of the equipment lost in the June 1967 war and subsequently have been embarrassed by Israeli forays into the country. So far, however, the Jordanian military continues to rely on US and British arms aid and some transfers of Western equipment from other Arab countries. Soviet economic aid offers seem to have found greater receptivity. A Soviet delegation to Amman in February 1968 took home a list of projects proposed by Jordan, and a Jordanian team went to Moscow in January 1969 to discuss the matter further.

On 20 November Jordan signed three economic agreements with Rumania for the ten-year period 1968-77. They included (1) an economic and technical cooperation agreement under which Rumania would supply Jordan with industrial plants

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and equipment, designs, and technical assistance for fertilizer production, mineral extraction, and electric power generation in return for Jordanian phosphates; (2) a petroleum agreement under which the Rumanians would undertake oil exploration for Jordan's Natural Resources Authority, providing the technical services and equipment and extending the necessary financial credits in return for 60 percent repayment by Jordan in crude oil, phosphates, or other minerals and 40 percent in pounds sterling; and (3) a trade agreement under which Rumania undertakes to import Jordanian products up to at least 30 percent of the value of Rumanian exports to Jordan -- recent Rumanian exports to Jordan have averaged around \$2 million a year, while Jordan's 1967 exports to Rumania were only \$60,000.

7. Nepal

Nepal's carefully non-aligned position is dictated by its location between Communist China and India, and the country accepts economic assistance from both Communist and Western sources. Communist China, which to date has supplied most of the Communist aid to Nepal, extended a grant of \$2 million in September 1968. This grant will be used to undertake a 10-mile extension of the Katmandu-Kodari road. The Chinese also agreed to extend until 1975 the time limit on the use of aid funds made available under a 1960 agreement. In addition, China began construction of the Sun Kosi River hydroelectric project near Katmandu which was agreed to in 1967. Soviet credits of \$21 million are about one-third of China's, and have largely been utilized. In 1968 the USSR completed and placed in operation the Birganj Agricultural Implements Plant and continued work on their one remaining project, the Simra-Janakpur Road in Southern Nepal.

8. Pakistan

During 1968, Pakistan evidenced a definite effort to strike a balance in its relations with Communist China, the USSR, and the United States. Soviet Premier Alexi Kosygin visited Pakistan in April, and Pakistan, in turn, sent several high-level military and economic missions to Moscow during the year. Two such missions also visited China. Presidential adviser S. Fida Hassan headed

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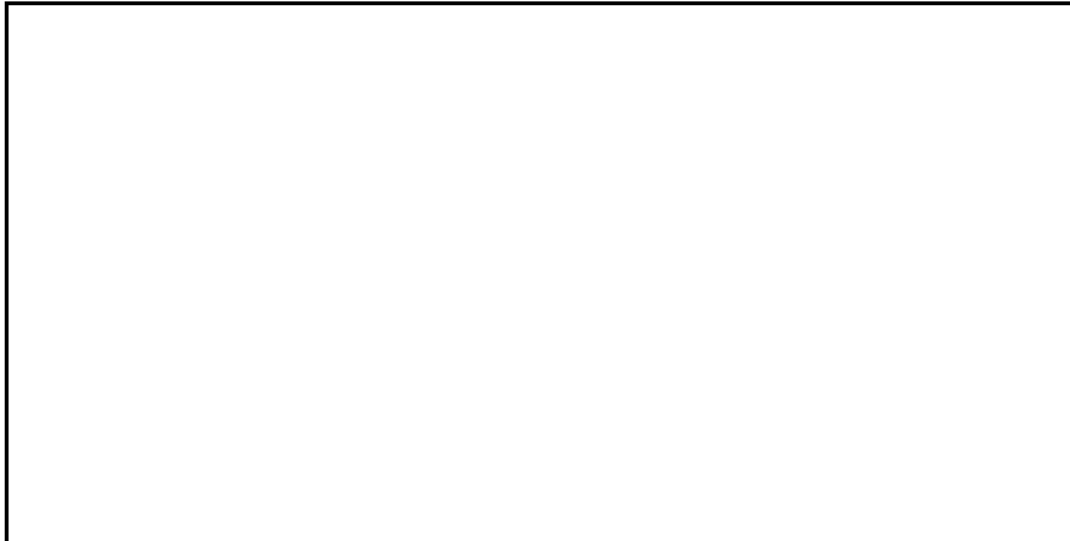
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a delegation to China's National Day in October, and General Yahya Khan led a military mission to Peking in November. A large Chinese mission, including military elements, made an unpublicized visit to Pakistan between 25 April and 6 May 1968.

Pakistan's economic aid relations with the USSR have prospered. In September 1968 the Soviets added \$3.7 million to their 1966 credit to Pakistan. The Soviets under the 1966 credit are preparing a feasibility study for a steel mill at Kalabagh, West Pakistan, and will conduct one on the atomic powerplant at Roopur, East Pakistan. The USSR also signed an agreement to assist in the development of Pakistan's fishing industry and dispatched three trawlers to participate in a training program.

Communist China significantly expanded its economic aid to Pakistan with the extension of a \$42 million interest-free credit on 26 December 1968. This is China's third credit to Pakistan and brings to \$109 million the total amount of Chinese aid extended. The new credit calls for repayment in Pakistani raw materials over a 20-year period after a 10-year grace period. Two-thirds of the new credit will be used for capital investment projects and the remainder for import of commodities.

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Pakistan expanded its trade with the Communist countries in 1967, largely in response to larger imports from and exports to Eastern Europe. The

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trend in increased trade with Eastern Europe has been under way for some time under direct encouragement from the Pakistani government. Aid deliveries by Czechoslovakia and Poland contributed partially to the rise in Pakistani imports from Eastern Europe of from \$20 million in 1966 to \$33 million in 1967. Trade with the USSR remained at about the same level as in 1966. Pakistan continued to run a deficit in its trade account with the USSR. In July 1968 the USSR and Pakistan signed a protocol to their 1968-70 trade agreement which provides for delivery of \$66.7 million of Soviet machinery and equipment under credit. These credits include the \$63 million of trade credits extended in 1966 plus a \$3.7 million addition to the 1966 credit. In 1967, Pakistan maintained its characteristically favorable balance of trade with Communist China.

9. Saudi Arabia

In April, Saudi Arabia signed an agreement with Rumania to barter 9 million to 12 million tons of crude oil in exchange for Rumanian goods and equipment valued at \$100 million. Rumania was to build an oil refinery in Saudi Arabia, but King Faisal vetoed the project for political reasons. Thus left with no use for Rumanian credits -- about \$4 million worth of oil already had been sent -- the Saudis suspended further oil deliveries in November.

In evident displeasure and concern over China's use of trade for introduction of propaganda, the Saudi Arabian Chamber of Commerce in April advised merchants and local bankers not to open any further letters of credit for Chinese imports. This action was taken with government approval and evidently reflects the official attitude on future imports from China.

10. South Yemen

Since achieving independence in late 1967, the leftist regime in the People's Republic of South Yemen has courted the Communist countries in an effort to get much-needed budgetary support, plus development aid and arms. Although no budgetary aid was forthcoming, South Yemen in 1968 obtained offers of project assistance

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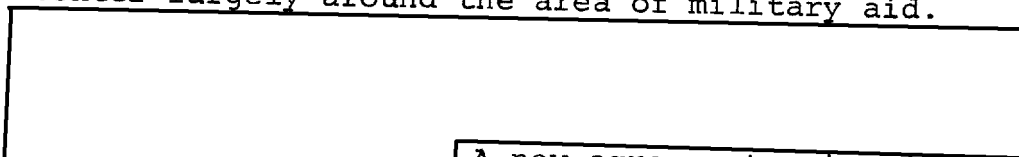
and/or technical aid from the USSR, Communist China, North Korea, and several East European countries. A \$12 million credit extension by the Chinese was announced. Very little of the Communist aid had materialized by the end of the year.



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11. Syria

The close relations which have existed between Syria and the USSR showed signs of strain during 1968. Friction between the two sides seemed to center largely around the area of military aid.



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A new agreement, signed at the behest of Egyptian President Nasser, reportedly provides for only about 5 to 15 percent of the requested equipment. The USSR, moreover, refused to intervene for Syria when Czechoslovakia informed Damascus in January 1968 that arms purchases henceforth would be on a cash rather than credit basis. The Syrians, in turn, continued to criticize the quality of some Soviet military equipment and, in particular, the arrogant attitude of Soviet advisers.

Following a major government reshuffle in Damascus in October 1968, there were indications that the new Ba'athist leadership wanted not only to prevent Syrian-Soviet relations from becoming even closer but perhaps even to reduce its considerable dependence on Moscow. In the latter part of the year, Syrian officials visited London, Paris, and Bonn in an apparently unsuccessful effort to buy Western arms.

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In the area of economic aid, there was only one new Communist credit in 1968. In June, Rumania extended a \$25 million credit for the purchase of machinery and equipment and for aid in specified projects. In May, Bulgaria agreed to apply credits extended in June 1966 to aid in increasing Syrian phosphate production by one-third to an eventual level of \$17 million yearly and to purchase the increased output of phosphates. Soviet aid activities were confined to the initiation of work on the Euphrates Dam in March and to continued assistance on the railroad system and in petroleum exploration.

12. Turkey

In reaction to the Czechoslovak invasion, Turkey curtailed its cultural relations and displayed coolness in its political relations with the USSR and the other Warsaw Pact participants. However, Ankara was careful to continue economic-commercial relations as usual to avoid jeopardizing the aid it is receiving and anticipates from the USSR.

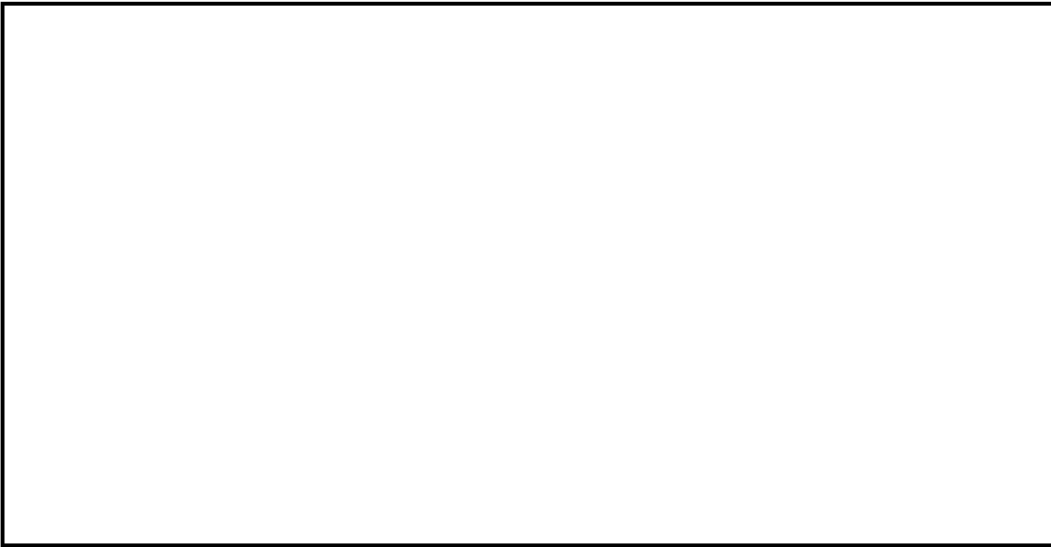
The USSR and Turkey are making progress in implementing projects covered by the 1967 Soviet credit. Construction has begun on two of the projects -- an aluminum plant and an oil refinery. Contracts have been signed for three of the projects -- a steel mill, sulfuric acid plant, and fiberboard factory. A protocol has been signed for a hydroelectric power station. The foreign exchange costs of these projects probably will amount to more than \$300 million, or well in excess of the \$200 million credit specified in the 1967 agreement. In such case, the agreement provides that the excess will be repaid at 2½ percent interest with installment terms to be decided by the USSR and Turkey.

In addition to the above, the Soviet Union and Turkey are reported to be building an irrigation dam on the Apra Cayi River, which forms part of their common border. Soviet technicians, moreover, are scheduled to assist the Turks in exploring for oil.

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13. United Arab Republic

The military and economic consequences of the Arab defeat in June 1967 continued to influence the nature of Communist aid to the UAR during 1968. Soviet deliveries of both offensive and defensive arms were made under a July 1967 pact for \$150 million as well as earlier agreements. With 80 to 90 percent of resupply believed to be completed in most major categories of equipment, the rate of deliveries in 1968 declined to about the pre-war level. A new agreement in July 1968 for a large undetermined amount of equipment may form the basis for continued deliveries which probably will contribute to a modernization and some expansion in UAR inventories beyond the pre-war level.



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Coupled with the increased supply of military hardware, the USSR has expanded its technical assistance effort to include some 2,500 military advisory personnel and has augmented its presence and support of UAR defense through fleet and air visits. The Soviet Mediterranean Squadron made greater use of Egyptian ports during the year, and the USSR took a direct hand in operation of the Al Kabbari shipyard. More than 100 additional Soviet technicians arrived for work at the shipyard during the year. In addition to



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During the year, trade protocols were concluded with the USSR, Czechoslovakia, Poland, Bulgaria, East Germany, Hungary, Communist China, and North Korea, in some cases calling for a significant increase in trade volume.

14. Yemen

The protracted civil war and resultant dislocations have influenced the nature and scope of Communist aid to Yemen. The USSR continued to ship some arms to the Republican regime but was undoubtedly dismayed at the misuse of the equipment and the military stalemate which prevailed during the greater part of 1968. Since such aid is vital to survival of the Republicans, the USSR agreed to another arms accord when a Yemeni delegation visited Moscow in October. Under the estimated \$5 million agreement, the Yemenis will receive 25 tanks (probably T-54's), 100 mortars, some artillery and small arms, and possibly additional MIG-17 aircraft. In order to make more effective use of its equipment, the USSR is sending additional instructors to help reorganize the Republican army and establish new units at Hudaydah and Ta'izz.

Few of the economic technicians who were evacuated in December 1967 have returned -- a year or so ago there were almost 500 Soviet civilians in Yemen. During the visit of Prime Minister

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Amri to Moscow in October, however, the Soviet Union apparently agreed to reactivate or expand various development projects, including the Hudaydah-Ta'izz road, the cement plant at Bajil, and the land reclamation and cotton cultivation project in the Tihama coastal plains. In addition, construction of a fish canning factory and a fishing port at Hudaydah probably will be started up again. The USSR also agreed to furnish certain foodstuffs and consumer goods under the same 1964 \$72 million credit which provided for the fore-going development projects, but rejected a Yemeni request for a \$50 million cash loan. Finally, the USSR has offered 50 new scholarships to train Yemeni students in the Soviet Union.

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*Aid and Trade Activities of Communist
Countries in Less Developed Areas of the
Free World, 1968*

Statistical Supplement to R 14-S23

Communist Economic Credits and Grants to Less Developed Countries, 1954-68

Secret

EIC R14-S23-S
March 1969

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Foreword

This publication contains details on non-military credits and grants extended by the Communist countries since 1954 to less developed countries in Africa, the Far East, Latin America, and the Near East and South Asia. This information was previously included in the annual EIC R-14 series on "Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World." It is now being issued separately on request to those consumers who find a continuing need for this information.

The term *Communist countries* refers primarily to the following countries that extend aid to less developed countries of the Free World: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. Yugoslavia is not normally included.

The term *less developed countries of the Free World* includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries of the Far East except Japan; (3) Portugal and Spain in Europe; (4) all countries in Latin America except Cuba; and (5) all countries in the Near East and South Asia.

The term *extension* refers to a commitment to provide goods and services either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initiated and constitute a formal declaration of intent. The term *drawing* refers to the delivery of goods or the use of services.

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*Aid and Trade Activities of Communist
Countries in Less Developed Areas of the
Free World, 1968*

MIDYEAR SUPPLEMENT, 1 January—30 June 1969

Secret

EIC R14-S23

July 1969

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SECRETForeword

The attached summary and tables, covering the six months from 1 January through 30 June 1969, constitute the midyear supplement to EIC-R14, *Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World*, and update the data contained in EIC R14-S23, dated March 1969. Data have been revised to include new information and figures in the current supplement supersede those in previous issues. The tables were prepared by the Central Intelligence Agency and were reviewed and coordinated by a Subcommittee of the Economic Intelligence Committee, which includes representatives of the Department of State, the Defense Intelligence Agency, the Departments of Commerce and Agriculture, the Agency for International Development, the National Security Agency, and the Central Intelligence Agency.

In this report the term *Communist countries* refers primarily to the following countries that extend aid to less developed countries of the Free World: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

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*Aid and Trade Activities of Communist
Countries in Less Developed Areas of the
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Foreword

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AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES
IN LESS DEVELOPED AREAS OF THE FREE WORLD, 1968

Summary

Major Trends

The growth of Communist aid and trade activity in the less developed countries of the Free World has tended to level off since 1964-65 (see Figure 1).^{*} Annual deliveries of economic aid have declined since 1964, although \$6 billion in committed aid remains to be delivered. Trade has grown at a modest rate since 1965, while Communist programs of technical assistance and academic and technical training appear to have remained at about their 1965 levels. Drawings on Communist military aid, in spite of the large-scale Soviet resupply of the Arab states in 1967-68, have leveled off at something on the order of \$400 million a year.

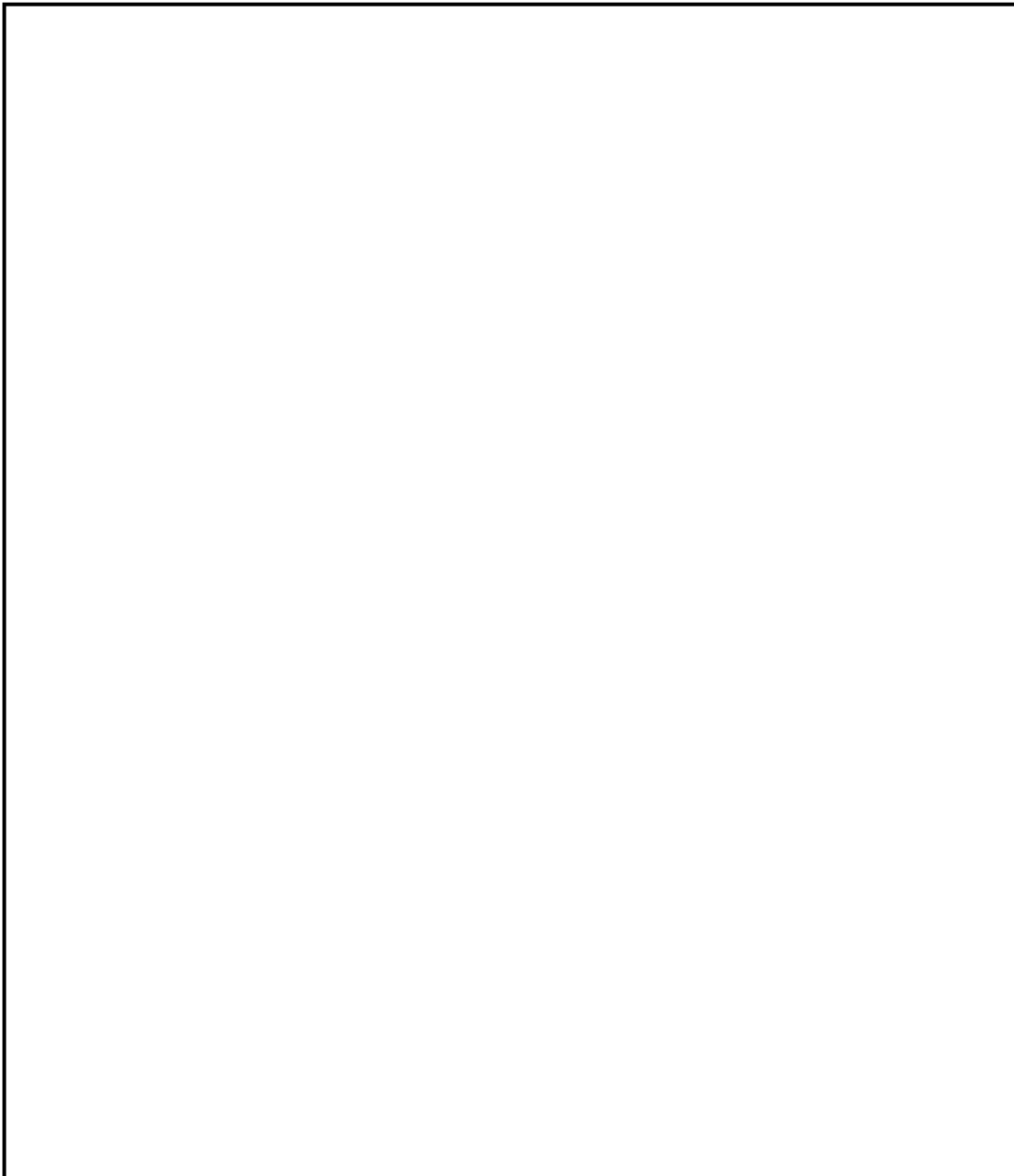
During the past several years the Soviets have adopted a more cautious approach to both economic and military aid. They have been more discriminating in the selection, implementation, and terms of aid. Greater attention is given to determining the suitability of particular projects for particular countries, and fewer large, unspecified lines of credit are extended. Terms of Soviet credits have hardened somewhat even for its traditionally favored clients. While not refusing requests for some form of military aid, the Soviets have shown increasing concern over the amounts and types of aid provided and, in the Middle East, have taken measures to insure more effective use of its military aid.

^{*} *In this report the term extension refers to a commitment to provide goods and services either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. The term drawings refers to the delivery of goods or the use of services.*

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The USSR also has taken a number of steps recently to promote the growth of its trade with the less developed countries. The conclusion of a number of short-term commodity agreements to purchase tropical products and agreements to import products manufactured in enterprises built with Soviet assistance are consonant with the Soviet position that only trade can be the basis for permanent and growing economic ties. Such agreements also minimize the buildup of unused payment balances in the less developed countries.



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