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The Soviet Approach to the Third World Debt Problem

An Intelligence Assessment

CIA HISTORICAL REVIEW PROGRAM
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The Soviet Approach to the Third World Debt Problem

An Intelligence Assessment

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The Soviet Approach to the Third World Debt Problem

Key Judgments

*Information available
as of 31 May 1989
was used in this report.*

The Soviets appear eager to take a larger role in the debate over debt relief for the less developed countries (LDCs). To date, however, Moscow's only noteworthy action has been General Secretary Gorbachev's statement on Third World debt before the UN last December. His address included both unilateral and multilateral proposals that probably carried political favor with the LDCs but fell far short of providing a working blueprint for Third World debt relief.

In the months following the speech, the Soviet leadership has done nothing to elucidate Gorbachev's presentation. Moscow may not feel pressured to offer more details because much of what Gorbachev proposes is not new. His multilateral proposals consist largely of ideas that have been part of programs offered in recent years by other governments and international financial institutions. Even his talk of unilateral debt relief does not suggest a radical departure for Moscow. The Soviets historically have viewed lending as a means to further foreign policy objectives. They have allowed many of their poorest debtors to postpone repayments and, in some cases, have forgiven portions of their obligations in exchange for political and strategic benefits.

Moscow's willingness to push debt relief at this time stems largely from the limited costs it would incur, as the burden of any plan implemented would fall mostly on the developed West. We estimate that Third World debt obligations to the USSR totaled about \$120 billion at yearend 1988, twice their level in 1984 but still only about one-tenth the size of the debt the LDCs owed the developed West. Moreover, much of the debt owed Moscow involves a different cast of characters than the Latin American debtors that owe sizable amounts to the West. Almost three-fifths of the Soviets' Third World debt is concentrated in the Communist LDCs and the Marxist nations, where repayment prospects are bleak. Moscow has few outstanding cash loans; most debts are the result of unpaid bills for deliveries of Soviet merchandise.

Moscow will continue its efforts to play a more active role in the debt issue by occasionally commenting on various relief packages such as the one proposed by US Secretary of the Treasury Brady, and may eventually offer more details on its own package. It may even unilaterally reschedule or reduce the debts of some of its "basket cases" to pressure Western creditors to take action. But Moscow is unlikely to press the issue too hard as it seeks

Western support to join international economic organizations, such as the GATT, and thus become better integrated in the world economy. The failure to forgive any of Cuba's debt during Gorbachev's recent Havana visit suggests that the Soviet leadership is aware of the industrialized West's sensitivity to this issue.

While any further actions will most likely be designed to garner maximum political gain, Moscow has economic incentives for dealing with Third World debt as well. We believe the Soviets are worried that Third World debt obligations to the developed West are hindering Moscow's initiatives to boost exports to the Third World and obtain payment on its own debts. The Soviet leadership appears to be taking a harder line with respect to granting new credits, in part because it needs the resources itself, but also because it realizes that most new credits would become uncollectible debts.

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The Soviet Approach to the Third World Debt Problem

Exploiting the Debt Issue

The Soviets, in search of political gain, have traditionally blamed the developed West for virtually all the ills plaguing the Third World. The issue of debt has proved to be no exception. At numerous international forums, especially meetings of the United Nations, Soviet officials have expressed concern about Third World debts to the West. For example, the Soviets sought to capitalize on the issue in January 1986 when the Soviet press published Foreign Minister Eduard Shevardnadze's letter to the UN on the "Economic Security of States." The letter called for the UN to protest the "strangling of the LDCs with a noose of debts." In his report to the 27th Party Congress the following month, General Secretary Gorbachev presented an outline for "international security," which included a proposal for a multilateral quest for the just settlement of the debt problem. Later that year Shevardnadze presented Gorbachev's "international security initiative" to the UN General Assembly on behalf of the Socialist countries

The Soviets have focused a good deal of their debt propaganda on Latin America:

- During visits of various Latin American foreign ministers to the USSR in 1985-86, Soviet officials reportedly expressed sympathy for those countries with burdensome debts to the West.
- The Western press reports that Shevardnadze's trip to Brazil, Uruguay, and Argentina in 1987 included offers of Soviet moral support on the debt issue.
- During Brazilian President Sarney's October 1988 visit to the USSR, the Soviets expressed support for Brazil and other Latin American countries to renegotiate their debts and indicated that the USSR wanted to become Brazil's strongest ally on the debt issue, according to [] []

Nevertheless, Moscow failed to publicly endorse President Castro's 1985 plan to have the Third World countries repudiate their debts. For the most part, Soviet leaders have assumed a rather low-key approach to the issue and have been willing to let lower ranking Soviet officials deal with this topic.

General Secretary Gorbachev's statement on Third World debt before the UN General Assembly in December 1988 suggested that the Soviet leadership was willing to take a more active stance on the issue. His address, however, seemed designed to curry political favor with the developing countries and to put Western creditors on the defensive, rather than to offer meaningful proposals. Gorbachev may have been seeking support for a more vigorous Soviet role in what has generally been a dialogue between the developed West and the Third World. He may have hoped to present the USSR as a bigger player in this arena than the actual level of its economic involvement would dictate.

Gorbachev's UN Platform

Gorbachev's address, while including both unilateral and multilateral proposals that garnered much publicity, fell far short of being a working blueprint for Third World debt relief (see inset). The unilateral proposals consisted of vague offers of lengthy moratoriums in repayments to the USSR and, in some cases, outright debt cancellation. The General Secretary also called for the use of multilateral forums to discuss various debt relief proposals, including limitations on official debt repayments.

Statements by high-ranking Soviet officials following Gorbachev's UN speech support our belief that his remarks were largely rhetoric, and neither the culmination of a well-thought-out Soviet plan nor the

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Excerpt From Gorbachev's UN Address

The following is the entire portion of Gorbachev's text that dealt with Third World debt issues. The speech was delivered before the UN General Assembly on 7 December 1988:

"... Foreign debt (Third World) is one of the most acute problems. Let us not forget that during the colonial era the developing world advanced the prosperity of a considerable part of the world community at the price of incalculable losses and sacrifices. The time has come to compensate for the deprivations that accompanied this historic and tragic contribution to the world's material progress. We are convinced that the solution again lies in internationalizing the approach. Taking a realistic look at things, one must acknowledge that the accumulated debt cannot be paid, that it cannot be recovered on the original terms. The Soviet Union is prepared to establish a long-term moratorium, up to 100 years, on the payment of debts by the least developed countries, and, in a whole series of cases, to write off the debts completely. As far as other developing countries are concerned, we invite you to consider the following:

- To limit payments on their official debts in accordance with the indexes of economic development for each of them, or to declare the long-term deferral of a large part of the payments.*
- To support the appeal of the UN Conference on Trade and Development (UNCTAD) to reduce indebtedness to commercial banks.*
- To provide governmental support for market mechanisms for settling Third World debts, including the creation of a specialized international institution for buying up debts at a discount.*

The Soviet Union advocates specific discussion of ways of settling the debt crisis at multilateral forums, including consultations of heads of government of debtor and creditor nations, held under the aegis of the UN."

beginning of a major Soviet offensive in this area. At a press conference immediately after Gorbachev's UN speech, Soviet spokesperson Gennadiy Gerasimov could not provide any additional information on the debt relief proposals. Similarly, Foreign Minister Shevardnadze, at a press conference in the Philippines later in the week, stated that details for implementing Gorbachev's proposals would not be formulated until the first part of 1989. (

In the months following the speech, the Soviet leadership has done nothing to further clarify Gorbachev's presentation:

- Although a Soviet academic reported in the Soviet magazine *Moscow News* in early January that the USSR was going to cancel the debt of 22 countries, mentioning Mozambique, Ethiopia, and South Yemen by name, at least one Soviet foreign affairs official has renounced the list, stating that everything was at a preliminary stage and that it was too early to say anything specific.
- A Soviet radiobroadcast at the end of March discussing the Third World debt problem did not present any additional information on Gorbachev's proposals.
- The Soviets' generally supportive reaction at the UN to US Secretary of Treasury Brady's recent proposals failed to mention Gorbachev's own initiatives.
- Gorbachev's much-anticipated speech to the Cuban National Assembly at the beginning of April only referenced his UN proposals without providing any new insights.

Moscow may not feel pressed to offer more details because much of what Gorbachev proposes is not new; his multilateral proposals consist largely of ideas that have been part of programs offered in recent years by other governments and international financial institutions. For example, France's President Mitterrand

called last September for the International Monetary Fund (IMF) to sponsor a debt reduction scheme. Japan's "Miyazawa Initiative," floated in June, proposed IMF management of an escrow account comprising foreign currency reserves of debtor nations that would be used to back bonds issued by those nations to purchase their outstanding commercial debts at a discount.

At least two of Gorbachev's proposals are very similar to initiatives under consideration by the Group of Eight (Rio Club) Latin American debtors. [

] broad plans of action under consideration by the group include:

- The exchange of ungraded bonds or securities by a debtor, backed by a multilateral financial institution for discounted debt.
- The creation of a new financing agency or the use of one that already exists—such as the World Bank or IMF—to acquire discounted debt on the secondary market.
- The use of market mechanisms through which debt can be converted into capital, exports, investments, bonds, or securities

Moscow's Lending Practices

Gorbachev's proposals for unilateral debt relief do not necessarily represent significant concessions by Moscow. The Soviets historically have allowed their poorest Third World debtors, such as Cuba, Mozambique, and South Yemen, to postpone debt repayments and, in some cases, have canceled portions of those countries' obligations. In recent years, Moscow also accommodated wealthier debtors such as Iraq and Algeria when they fell upon hard times. [

] the Soviets, within

* The Group of Eight consists of the presidents of Colombia, Mexico, Panama, Venezuela, Argentina, Brazil, Peru, and Uruguay, who meet to coordinate regional debt efforts. The Rio Club is the informal name given to the Group of Eight finance ministry officials, organized by the presidents to discuss and resolve Latin American debt problems.

the past couple of years, have rescheduled or restructured the debts of virtually all their Middle Eastern customers and many of their African, Asian, and Latin American debtors.

Since the UN speech, Moscow may have initiated some additional unilateral actions:

- The day after Gorbachev's UN address, Havana publicly announced that Moscow had proffered a moratorium on Cuba's debt payments. However, both Gorbachev and Castro skirted the issue at a press conference following Gorbachev's speech in Havana on 4 April.
- A recently initiated protocol postponing Mozambique's debt payments due in 1989 and 1990 calls for further negotiations based on Gorbachev's UN address.

[Moscow would be willing to forgive some of Ethiopia's debts if the Ethiopians would make assurances that the remaining debt would be repaid

Moscow's relatively lenient stand on its repayment problems with the Third World stems largely from political determinants. Its lending practices in the Third World are, more often than not, made in concert with foreign policy goals, and do not necessarily serve Soviet economic interests. For example, Moscow has gained considerable political leverage and access to military facilities by allowing the Communist and Marxist countries to run up large debts. Moscow's attempts to gain or retain influence with other LDCs are often accompanied by offers of soft currency loans for project assistance. In contrast, the foreign policy goals of governments in the developed West often run counter to the interests of Western bankers and businessmen

Even the economic aspects of Soviet lending differ from Western practices. Virtually all of the debts owed Moscow are the result of unpaid bills—both principal and interest—on deliveries of Soviet military

and commercial goods, while Western loans are largely a combination of export credits and untied lending. The USSR has, on rare occasions, extended small cash loans to some of its LDC clients that are not tied to purchases of Soviet merchandise. But Moscow has been quite demanding in having such loans repaid, and we believe this type of loan represents less than 1 percent of total Soviet financial exposure in the Third World.

In particular, Moscow has traditionally provided sizable credits to the Third World to bolster sales of Soviet nonmilitary manufactured goods, which have suffered from poor marketing techniques, low quality, and inadequate after-sales service. We believe that as much as three-fourths of Soviet machinery and equipment sales over the last 20 years have been delivered on credit. Moreover, the original payment terms for about two-thirds of the debts call for repayment in kind. The inability of the Third World to make timely hard currency payment for the remaining one-third results in an even higher percentage of debts being settled with goods. Conversely, most Third World debts to the West call for repayments in hard currency.

Third World Debt to Moscow

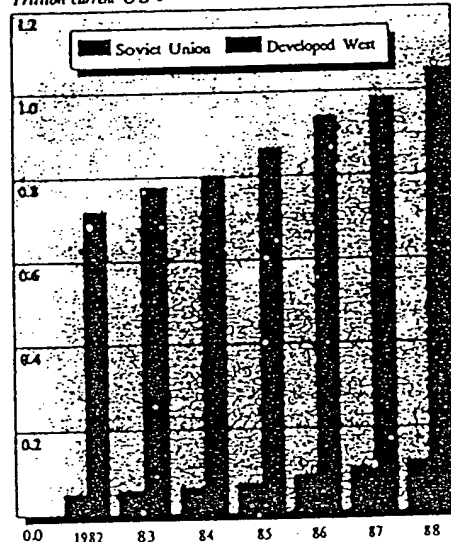
We estimate that Third World debt to the USSR totaled about \$120 billion at yearend 1988, about one-tenth the size of the LDC debt to the developed West (see figure 1 and inset). Moreover, the two debts are concentrated in different sets of countries:

- The developed West's 10 largest debtors¹—including four in Latin America—owed the West some \$550 billion at yearend 1988, but owed less than \$20 billion to the USSR.
- The "least developed countries," as designated by the World Bank and the IMF and located primarily in Sub-Saharan Africa and South/East Asia, owe the West roughly five times as much as they owe the Soviets.

¹ The 10 largest debtors include Brazil, Mexico, Argentina, Indonesia, Egypt, Nigeria, Venezuela, Philippines, India, and South Korea.

Estimated Third World Debt Obligations

Trillion current US \$



EDD01 6.88

Military Debts. Slightly more than half of LDC indebtedness to the USSR—\$65 billion—is in the form of military debt (see figure 2 and table 1). Our analysis indicates that the non-Communist LDCs account for over nine-tenths of the total:

- We estimate that Moscow's traditional Middle East arms customers owe the Soviets about \$31 billion, with Syrian debts accounting for roughly one-half of this amount.
- The Marxist states—Angola, Ethiopia, Afghanistan, Nicaragua, South Yemen, and Mozambique—have run up an arms tab of some \$14 billion, most of it owed by the first three countries.

Estimating Third World Debts to Moscow

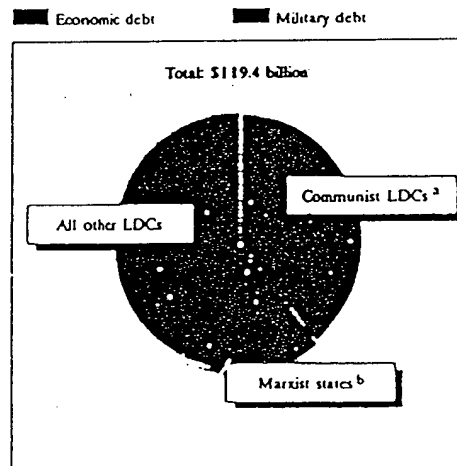
Calculating the size of the Third World's debts to the Soviet Union is fraught with uncertainty because hard data are unavailable. Nonetheless, we believe that a reasonable estimate—give or take 10 to 15 percent—can be made using all-source reporting, which provides both "ballpark" debt numbers for some countries and information helpful in estimating the debts of others.

Total debt is calculated by summing up our individual estimates for military debt, economic debt of the Communist LDCs, and economic debt of the non-Communist LDCs. Each type of debt is derived with a different method:

- The lack of information on repayment and rescheduling terms for all but a few of Moscow's military debtors forces us to rely largely on collateral debt information obtained from various sources. Individual country data, such as assumptions about interest rates, repayments, and credit extensions, are fed into a model that calculates the estimated debt.
- To estimate the non-Communist LDCs' economic debts, we use the terms of the original loan agreements (10 to 12 years at 2.5 to 4 percent), taking into account reschedulings of which we are aware.
- To calculate the Communist LDCs' economic debts—which are repayable in goods—we rely mostly on cumulative trade deficits reported by the Soviets, allowing for debt cancellations, and on estimates of the value of Soviet technical assistance.

- Another large chunk of military debt is owed by Moscow's clearing account trading partners: India (\$11.1 billion) and Egypt (\$4.4 billion).
- The remaining \$5 billion is owed by Peru (\$1.1 billion), Jordan (\$1.0 billion), a few other moderate Arab states, and numerous Sub-Saharan African countries.

Composition of Third World Debt to the USSR, 1988



^a Cambodia, Cuba, Laos, North Korea, Mongolia, and Vietnam.

^b Afghanistan, Nicaragua, Ethiopia, South Yemen, Angola, and Mozambique.

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The Communist LDCs—Cuba, Vietnam, Mongolia, North Korea, Laos, and Cambodia—account for less than 10 percent of the total Third World military debt owed the USSR, despite receiving sizable Soviet arms deliveries for the past 10 years. The absence of substantial military debts by these countries is a result of Moscow's typically providing arms to them free of charge—sales to North Korea being the one notable exception. Despite the free arms, Vietnam and Cuba have each run up military debts of some \$1-2 billion.

Economic Debts. Third World economic obligations to Moscow total some \$54 billion and are overwhelmingly concentrated in the Communist LDCs. Indeed, we estimate that Cuba has run up a tab of almost \$20 billion, obtaining commodities such as Soviet oil and machinery and equipment critical for its economic well-being (see inset). Similarly, economically troubled Vietnam and Mongolia have perennially relied on the USSR for a majority of their imports, with little ability to pay for them. As a result, we believe each of these countries has incurred debts of about \$11 billion to the Soviet Union.

In contrast, we estimate that the non-Communist LDCs, combined, owe the Soviets just under \$11 billion, accounting for about one-fifth of Moscow's outstanding Third World economic debts:

- About 90 percent of non-Communist LDC economic debt is in the form of long-term economic credits financed on favorable terms; the remaining 10 percent consists of long-term commercial loans with more competitive terms.
- Marxist states account for almost \$4.5 billion of the debt, most of which was accrued in exchange for Soviet assistance in development projects.
- Non-Marxist debtors owe more than \$6 billion, with India, Nigeria, Syria, and Iran each estimated to have debts between \$0.5 billion and \$1.2 billion.

Moscow's Expectations for Repayment

Moscow probably harbors no illusions that the bulk of its Third World debts will be repaid. (Table 2 lists the Soviets' major debtors and our judgments of the likelihood of repayment.) Moscow has been willing to accept laborers from the Communist LDCs to work in the USSR as a means of extracting some repayment of the roughly \$50 billion in total obligations. But for the most part, Moscow will continue to accept political and strategic gains to offset the paucity of debt payments. For example, Cuba has proved a useful adjunct of Soviet foreign policy, which has been amply demonstrated militarily in Africa and politically throughout the Third World, and has been a

Cuba's Debt to the USSR

Cuba provides a good example of the difficulties encountered in estimating the debts of specific countries, especially the largest debtors. An examination of trends in Soviet economic and military assistance to Cuba results in an estimate of total debt for yearend 1988 of roughly \$21 billion. Almost 95 percent—or \$19.7 billion—of this debt is economic, resulting largely from unpaid bills for Soviet imports since the Cuban revolution. The economic debt could be smaller to the extent that Moscow has canceled some interest payments—which it has, [

]—and also credited Cuba with repayments for some services. The military component of the debt is small, despite military deliveries [

] each year since 1980. Moscow reportedly provides most of the hardware free of charge and expects payment only on dual-use items, such as trucks and transport planes. However, [

] Cuba's total debt to the Soviet Union could be as high as the equivalent of \$34 billion. We believe that the high end of this range would be probable only if large amounts of economic assistance went undetected and some military deliveries were made on credit and not gratis. [

] \$34 billion estimate does, indeed, include materials provided free of charge.

valuable socialist "outpost" in the Western Hemisphere. The Soviets' continued access to military facilities at Cam Ranh Bay has been facilitated by Vietnam's debts to the USSR.

The same holds true for the \$18 billion debt of Moscow's Marxist clients. Excusing portions of this debt would not cost the Soviet economy much because most of these countries are already failing to meet scheduled payments. They remit less than \$300 million annually—including both goods and hard currency—against their Soviet obligations. The best Moscow can hope for in the foreseeable future is to use the debts as a lever to secure noneconomic benefits

Table 1
Estimated Third World Debt
to the USSR

*Billion current US \$**

	1982	1983	1984	1985	1986	1987	1988
Total debt	47.6	56.1	61.2	67.7	86.8	105.2	119.4
Communist LDCs ^b	17.0	20.8	23.4	27.1	34.6	42.3	49.3
Non-Communist LDCs	30.6	35.3	37.8	40.6	52.2	62.9	70.1
Marxist states ^c	4.9	6.5	8.3	9.7	12.5	15.8	18.4
Middle East ^d	17.5	19.5	19.9	20.6	26.5	31.6	34.0
Other	8.2	9.3	9.6	10.3	13.2	15.5	17.7
Military debt	26.5	30.3	31.9	34.7	46.1	57.0	65.0
Communist LDCs	1.4	1.6	1.8	2.3	3.4	4.4	5.8
Non-Communist LDCs	25.1	28.7	30.1	32.4	42.7	52.6	59.2
Marxist states	3.7	4.9	6.1	7.0	9.2	11.8	13.9
Middle East	15.8	17.6	17.8	18.3	24.0	28.9	31.0
Other	5.6	6.2	6.2	7.1	9.5	11.9	14.3
Economic debt	21.1	25.8	29.3	33.0	40.7	48.2	54.4
Communist LDCs	15.6	19.2	21.6	24.8	31.2	37.9	43.5
Non-Communist LDCs	5.5	6.6	7.7	8.2	9.5	10.3	10.9
Marxist states	1.2	1.6	2.2	2.7	3.3	4.0	4.5
Middle East	1.7	1.9	2.1	2.3	2.5	2.7	3.0
Other	2.6	3.1	3.4	3.2	3.7	3.6	3.4

* While virtually all of Moscow's Third World debt agreements are valued in rubles, about three-fourths of the loans are payable in hard currency—or hard goods—allowing us to present these debts in dollars using the official Soviet ruble/dollar exchange rate. For those debts payable in soft currencies, such as the Indian rupee and the Egyptian pound, dollar valuations may misstate the debt.

^b The Communist LDCs are Cuba, Vietnam, Mongolia, North Korea, Laos, and Cambodia.

^c The Marxist states are Afghanistan, Angola, Ethiopia, Mozambique, Nicaragua, and South Yemen.

^d For the purposes of this paper, the "Middle East" encompasses Moscow's traditional arms clients (Algeria, Libya, Iraq, Syria, and North Yemen), the moderate Arab states (Egypt, Jordan, Kuwait, Saudi Arabia, the United Arab Emirates, Oman, Bahrain, and Qatar), and Iran.

Table 2
The USSR's Top 10 Third World Debtors, 1988

	Debt Estimate (billion \$) ^a			Status of the Debt ^b
	Total	Military	Economic	
Cuba	21.0	1.3	19.7	Unlikely to be repaid.
Syria	15.3	14.5	0.8	Unlikely to be repaid.
Vietnam	13.0	1.9	11.1	Unlikely to be repaid.
India	12.2	11.1	1.1	India has remained current on its repayments, paying in rupees.
Mongolia	11.0	0.1	10.9	Better described as Soviet "investment," given Mongolia's interdependence with USSR's economy.
Iraq	5.8	5.0	0.8	Probably repayable because of vast oil reserves.
Ethiopia	5.6	5.1	0.5	Unlikely to be repaid.
Angola	5.4	5.2	0.2	Most debt rescheduled recently.
Algeria	4.6	3.9	0.7	Recently rescheduled; Moscow accepting some payment in goods.
Egypt	4.5	4.4	0.1	Recently rescheduled (the debt is largely because of arms purchases before 1975).

^a Preliminary.

^b Our judgment, on the basis of available information.

Moscow probably is more confident that it can obtain some repayment on the \$52 billion owed by non-Communist, non-Marxist LDC debtors. But it most likely realizes that, even in these cases, timely repayment is questionable. The depressed world prices of raw materials—particularly oil—have turned a number of Moscow's good arms customers, such as Iraq, Algeria, and Libya, into problem cases. We believe that India continues to meet its payment obligations. However, New Delhi is concerned that its military debt repayments to the USSR are growing, mainly due to the decline of the rupee against the ruble, and is reluctant to agree to new major defense contracts.

To ensure at least some type of compensation from troubled debtors, Moscow will continue to accept payment in kind—mostly oil and other raw materials. In fact, oil deliveries from several Middle East clients climbed sharply last year. The Soviets are also willing to enter into somewhat unorthodox schemes: for example, allowing Peru to meet some of its debt obligations through nontraditional exports to the USSR. And Moscow has recently accepted Algerian agricultural machinery, although the Soviets rarely import machinery and equipment from Third World states. The Soviets stop delivering goods as a means of exerting pressure only when significant arrearages occur with countries Moscow believes have some ability to pay.

The Next Step

Moscow will continue with its efforts to play a more active role in the debt issue by occasionally weighing in on various relief packages such as the Brady proposals, and may eventually offer more details on its own package. The Soviet leadership may be especially keen to continue to play up Latin America's debt problems, because the costs to Moscow of any multilateral debt relief program for this region would be small and limited primarily to Peru. Not only were Gorbachev's UN proposals in tune with what has been proposed by the Group of Eight (Rio Club), but he timed his remarks to be made just a few weeks prior to a scheduled meeting of the major Latin American debtors. Various Latin American press reports—most notably from Peru and Brazil—following Gorbachev's UN speech indicate that his remarks were received favorably, in stark contrast with the mostly downbeat press reporting in the developed West. The Soviets may even unilaterally reschedule or write off more debts of some of its "basket cases" to pressure Western creditors to take action.

We believe, however, that Gorbachev's failure to announce publicly a forgiveness of all, or even a part of, Cuba's debts during his recent visit—in spite of numerous reports in the news media predicting the contrary—reveals that Moscow is aware of the costs of playing its Third World debt card too often. Moscow's goal of becoming more integrated into the world economy hinges on being accepted into such

Western-run organizations as the GATT and IMF, and thus it is likely to handle the debt issue delicately so as not to offend Western governments and bankers. Moscow may also be concerned that a highly visible cancellation of Cuba's debt would weaken the Soviets' hand, both in obtaining future economic concessions from Havana and in negotiating with other Third World countries on debt rescheduling. Indeed, Burundi's proposal to the USSR last January to cancel its outstanding loans was reportedly inspired by Gorbachev's UN address, according to []

Moscow may expect the gains from its debt initiatives to be largely political, but it may also hope for some economic spillovers. The Soviets may be particularly concerned with the negative impact that LDC indebtedness, in general, is having on their own economic fortunes in the Third World. While Moscow recognizes that profitable economic relations with some countries—like the Communist LDCs—are impossible, we believe the Soviets are worried that Third World debts to Western creditors are hindering Soviet initiatives to boost trade with other, less destitute countries. For example, a recent Soviet journal article emphasized that the Latin American debt problem was impeding the development of trade with the region. Soviet trade statistics show that Moscow's exports to the Group of Eight have declined markedly since the beginning of the LDC debt crunch. In a similar vein, although the USSR is stepping up trade overtures to the Philippines, [] the Philippine Central Bank is resisting barter deals with the USSR because of the need to earn hard currency to service Western debts.

In contrast to Moscow's relatively lenient approach to collecting payment on debts already incurred, we believe Gorbachev is actively seeking to reduce the likelihood of uncollectible debts in the future. For example, [] Moscow is trying to reduce the share of its exports provided on credit to the Communist LDCs and the Marxist states through some combination of reduced exports and

increased imports. The Soviets are particularly concerned about the level of financing they provide Cuba and Vietnam to cover their combined \$2-3 billion yearly commercial trade deficits with the USSR. In addition, the Soviet Bank for Foreign Economic Affairs recently instituted a new policy for Soviet banks abroad not to extend loans to Cuba and North Korea unless they were either state guaranteed or 100 percent secured. [

] In the case of Soviet credits still flowing to the Communist LDCs and the Marxist states, there is increasing evidence that Moscow will take a more active role in determining how the credits are used by tying them to specific projects approved by Moscow and by increasing hands-on supervision of those projects.

Moscow also may be planning to cut back sharply on military aid to the Communist LDCs and Marxist states in the early 1990s, according to [

] While the Soviets are likely to honor current, multiyear arms agreements for many clients, they may take a harder stance as new agreements are worked out. Foreign Minister Shevardnadze stated publicly in late 1988 that the USSR cannot supply all of the military and economic needs of its clients. Privately, the Soviets have already told Vietnam, Ethiopia, and Mozambique to expect cuts in military aid.

Many non-Communist, non-Marxist states are also facing tougher lending policies when seeking Soviet credit. For example, Moscow probably views prospects for repayment from Syria as extremely bleak for the foreseeable future. During President Assad's visit in 1987, Gorbachev reportedly hammered home the message that Syria could no longer be given a blank check for the latest Soviet armaments. [

] a more businesslike approach. Moscow has apparently also been less forthcoming with economic credits for Damascus. A Syrian trade delegation looking for construction materials on credit for projects slated for 1989-90 returned from the USSR emptyhanded.

Even some of Moscow's "better" customers are coming under increased scrutiny. For example, a Soviet trade officer in Peru stated that the USSR is not interested in providing further credits until Lima pays off some of its outstanding obligations, according to [

] was somewhat concerned about Soviet financial exposure in Iraq. Other Soviet diplomats have stated that the USSR remains committed to participation in Iraq's economic development in the postwar period, but it would no longer provide "huge" soft loans.