

DIFFICULTIES ENCOUNTERED BY LESS DEVELOPED COUNTRIES (LDCs)  
IN THEIR ECONOMIC RELATIONS WITH THE SOVIET UNION

As the less developed countries have expanded economic relations with the USSR, they have encountered numerous difficulties inherent in Soviet economic aid programs. They often have found the USSR to be an uncertain trading partner, many of its goods to be of poor quality, and spare parts for Soviet mechanical equipment difficult to obtain. Recipients of Soviet economic assistance frequently complain about the delays in project implementation, the use of dated technology, the high prices for the materials, and equipment, and the errors in planning and execution of projects.

I. Soviet Trade with the Less Developed Countries

A. Nonfulfillment of Trade Agreements

For the LDCs, the Soviet Union often has proven to be a sporadic and uncertain trading partner. Quotas contained in bilateral agreements frequently are not fulfilled, and trade often fluctuates from year to year. Nor are individual trade contracts immune. After protracted haggling over prices, the USSR finally backed out of a 1968 commitment to purchase 54,000 railway cars from India with deliveries to begin in 1970. [redacted] On the other side of the coin, a 1969 Soviet trade agreement with Afghanistan called for an Afghani surplus to be maintained to facilitate debt repayment but it never materialized because the Soviets did not import enough.

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Where imbalances in trade with the USSR exist, many countries receive non-convertible ruble credits. If the trading partner cannot find enough suitable Soviet goods at reasonable prices, it is placed in the position of actually financing the trade imbalance with an interest-free trade credit.

Despite promises to increase the proportion of manufactures in imports from LDCs, for most countries the USSR remains a raw materials importer. Although the share of manufactures from LDCs has risen as a percent of total imports, about 80% has come from Egypt and India as repayment of aid debts.

The following trade data show the erratic nature of Soviet trade.

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Soviet Trade with Selected Asian Countries  
1965-70

	Million US \$					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Burma	18.9	5.5	9.6	2.2	6.3	4.9
Cambodia	4.1	3.0	2.0	2.8	.7	1.9
Ceylon	40.4	38.6	30.9	28.0	22.6	18.9
Indonesia	86.4	35.6	29.5	24.3	27.4	32.8
Nepal	2.2	1.5	1.3	1.5	2.0	1.5

B. Resales of Imports

Another difficulty faced by the less developed countries is that the USSR often agrees to "accommodate" them by importing some of their primary products, only to resell substantial portions of these imports on Western markets. Thus, the LDC runs the risk of simultaneously losing an established Western market and receipts of badly-needed hard currency. Egyptian cotton is a prime example of a commodity frequently resold in Western markets. As much as 10% of the Egyptian cotton purchased by the USSR reportedly has moved into the resale market at discounts as high as 20% below world market prices. A recent Soviet deal to ship cotton imported from Sudan to India for processing elicited sharp Sudanese protests that this arrangement would jeopardize its large cotton exports to India. Although Sudan received assurances that the cotton will be processed only for resale to the USSR, Sudan reportedly plans to cut shipments of cotton to the USSR next year by two-thirds.

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C. High Prices

An LDC may pay premium prices under bilateral barter agreements for poorly designed Soviet machinery and other products. While the prices of most LDC commodities may be ascertained daily by checking world prices, erratic Soviet pricing methods make it almost impossible to determine the competitiveness of prices for Soviet equipment. Turkish officials, for example, report that prices for industrial equipment imported under Soviet aid credits are higher than those quoted in the West for similar equipment of superior quality.

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[Redacted]

D. Trade Deficiencies

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Among other problems encountered by less developed countries in their trade with the USSR, the following are cited:

- 1. Poor packaging and handling frequently results in shipments arriving damaged; improper transport scheduling occasionally results in too rapid delivery and accumulation and spoilage on the importing country's docks. Such was the case with a recent exchange with Ecuador, where one-fourth of a Soviet shipment of cement arrived poorly packaged and much of it hardened at the port. Ecuador estimates that it lost \$165,000 on this banana-cement barter deal.

[Redacted]

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- 2. A shipment of 5,000 tons of fertilizer for Soviet-aided state farms in Iraq not only was badly packaged but arrived without notice, could not be stored, and became caked and unusable. Moreover, the Soviet Union charged Iraq \$92.40 per ton compared with \$44.80 paid by Iraqi importers for similar fertilizer from other countries.

- 3. Only seven months after they arrived, 80 out of 100 Soviet jeeps bought by Colombia had broken down and were removed from service. [Redacted] Almost 80% of one large purchase of Soviet tractors was inoperative only a short time after they were put to use in Pakistan. [Redacted]

[Redacted]

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- 4. Argentine health officials condemned some 1,500 tons of Soviet butter which arrived in the country contaminated. [Redacted]

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- 5. Pakistani news sources reported that Pakistan encountered long delays in every stage of a trade transaction with the USSR. In several cases letters of credit had to be issued twice before the goods arrived. Moreover, the quality of Soviet hand tools obtained in this agreement were considered to be inferior to the locally produced tools. [Redacted]

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6. Domestic sales agents for Soviet mechanical equipment frequently complain about the difficulty in obtaining spare parts for such equipment. Businessmen in Somalia, Mali, and Iran, for example, have complained about the financial losses such delays cause. A Syrian agent for Soviet tractors cancelled his contract after two years because the spare parts problem had caused his business to decline.
  
7. In August 1969, Cameroon reported that the cement market was in chaos because deliveries from the USSR were not arriving on time and imports from other countries would have to be authorized at substantial losses.



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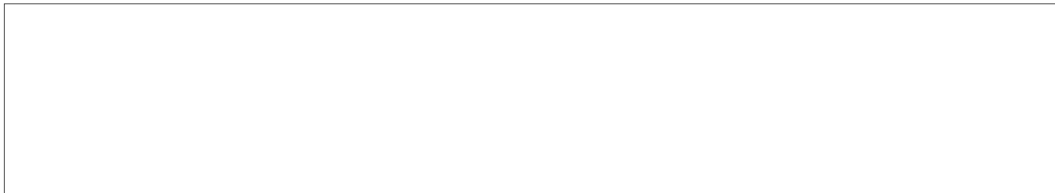


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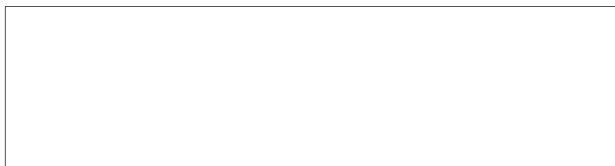
9. Ghana requested international oil companies to supply four cargoes of crude on which the USSR had defaulted under a 1969 contract. It was assumed that the default reflected growing Soviet-Ghanian political frictions following the impounding of a Soviet trawler.



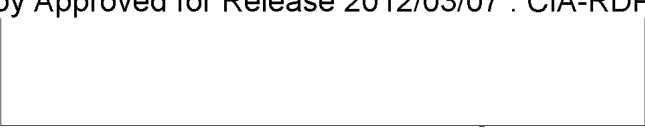
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II. Soviet Economic Aid to the Less Developed CountriesA. Political Motivation


The Soviet Union seeks to project an image of its economic aid as a selfless undertaking to assist recipient countries with their economic development. In reality, the USSR employs its aid program as a primary instrument for furthering its geopolitical interests, for encouraging the growth of socialism in recipient countries, and for establishing a favorable political climate for the activities of domestic Communists. In answer to an Iranian Communist's questions concerning Soviet economic aid to Iran, a Soviet official summed up Moscow's policy when he stated:

It is the Soviet plan to cultivate the under-developed areas with foreign aid. In Iran, as in other countries, Soviet aid will help speed the economic and social changes necessary to create the proper conditions for the establishment of socialism. This trend has already accelerated in Iran, cannot now be stopped, and must be encouraged by Soviet aid for the sake of the Communist movement.

However, the achievement of this long range goal through aid often is hampered by Soviet failures. There have been complaints on almost every aspect of Soviet aid activity. The USSR has been accused of conducting incomplete surveys, misinterpretation of survey data, faulty planning and project design, high prices, inefficient implementation and delivery of poor quality machinery and equipment. In addition, Soviet cost estimates often prove optimistic, and cost overruns occur frequently.

B. Questionable Economic Priorities

Less developed countries not only have cause to question the motivation of the Soviet aid program but also its soundness in terms of their own economic requirements. Some Soviet-assisted projects have contributed little to the recipient's national income, have not made optimum use of indigenous resources, and have created repayment problems. The USSR readily agrees to construct projects which can be completed rapidly and offer quick propaganda returns. Consequently, there are stadiums in Rangoon, Djakarta, and Bamako, hotels in Burma, Afghanistan, and Guinea, and a presidential palace in Conakry. Such projects contribute little to the long-run economic requirements of the recipient.

Even some large-scale Soviet projects designed to make direct contributions to the recipient's economy have proven unsound. In 1970,  10 of the 13 major Soviet-financed undertakings, mostly heavy industrial plants, were operating

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[redacted]

at a loss and were a growing liability to the Indian economy. Failures have centered around faulty planning, inflexible specifications, and delays in deliveries and completion dates. In some cases, the completed project's output far exceeds Indian needs and is not competitive in world markets; in others production costs far outstrip sales prices. [redacted]

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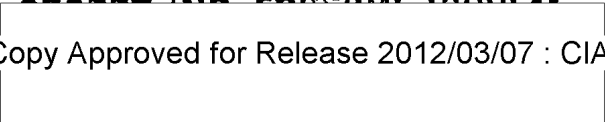
### C. High Cost of Soviet Technical Assistance

Soviet technical assistance must be paid for and usually is charged to the Soviet project credit, whereas such aid generally is provided as a grant under Western aid programs. The costs of Soviet services tend to be high and in many countries have accounted for 25%-30% of total Soviet expenditures for a project. Malian officials, for example, have stated that for many Soviet projects the greater part of aid funds is being spent for technical services. The total cost of a geological survey undertaken by the USSR in Ghana was estimated at about \$5.7 million, of which \$4.4 million was spent to cover the costs of Soviet technicians.

The high cost of Soviet technical services is due to the numerous items which must be covered and the inordinately large number of Soviet technicians which must be employed. Included in the foreign exchange portion chargeable to the Soviet credits are salaries, round-trip plane fare (often first-class), annual leave, and life insurance premiums. If a technician's family accompanies him, their fares must be paid, in addition to a family transfer allowance. The host country also is responsible for most of the local maintenance costs of Soviet technicians. These include free medical care, office space, official transportation within the country, and furnished quarters for the technician and his family.

The narrow functional specialization of Soviet technicians (an outgrowth of the specialized Communist educational system) also is a cost-raising factor. Several Soviet technicians sometimes are required to perform the work of one Western technician. Consequently, many more technicians are required for a Soviet project than would be employed on a similar Western aid project. The problem is aggravated by Soviet unwillingness to accept full administrative responsibility for a project. Soviet organizations are responsible for only conducting technical surveys, for coordinating work of all technicians employed on a project, for directing basic construction activities, and for installing machinery and equipment. The aid-receiving country usually is responsible for all related work involving the use of domestic goods and services and for coordinating overall construction activities. This often requires administrative experience which a recipient country may not possess and for which aid was originally sought.

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D. Deficiencies in Project Undertakings

Many recipients of Soviet aid have complained of the poor performance of Soviet machinery and equipment and the frequent lack of spare parts. Agricultural machinery and road construction equipment have been singled out as being particularly unadaptable to conditions in IDCs. Algeria, India, Pakistan, Egypt, and Iraq periodically have complained about the inefficient methods and outmoded equipment used by the Soviets in their oil prospecting activities, as well as about the long periods required to carry out surveys. Food processing installations have fallen victim to Soviet miscalculations of raw materials supply and markets for the output.

The Soviet aid performance has probably been poorest in Indonesia. Despite more than \$100 million owed by Djakarta to the USSR for economic aid, not a single Soviet industrial project has been completed. Thus, Indonesia is paying for equipment delivered but not installed and in various states of disrepair. The following table details some problems encountered by other recipients of Soviet aid.



ALGERIA

Steel complex at Annaba

The Algerians have expressed great disappointment with the Soviet-assisted portion of the El Hadjar steel works, also receiving aid from West Germany and France. Although the Soviet facilities were to be completed in 1969, they still were not finished at the end of 1971. West German and French firms have completed their portions of the project. The Algerians cite the inflexibility of Soviet state organizations as a major factor in the delay.

BURMA

Kyetmauktaung dam and irrigation project

Soviet geologists did not study substrata of floor of dam sufficiently, and constant seepage is severe. While it is not uncommon for 300 borings to be made for a dam of this size, the USSR made only 20 test borings. During construction, in anticipation of flooding, Soviet technicians released water from the dam and destroyed a large area of crops. The remaining crops in the area died in the ensuing drought, as not enough water was left in the dam for irrigation. Soviets reportedly used 1913 statistics to estimate rainfall, which is currently insufficient to fill the planned lake. Experts report that although the dam itself is well constructed, it is unlikely that the large scale irrigation planned will ever be carried out.

Hospital, Taunggyi

Constantly plagued by equipment failures. In addition, it is inaccessible to very ill or injured patients, being located at the top of a steep hill.



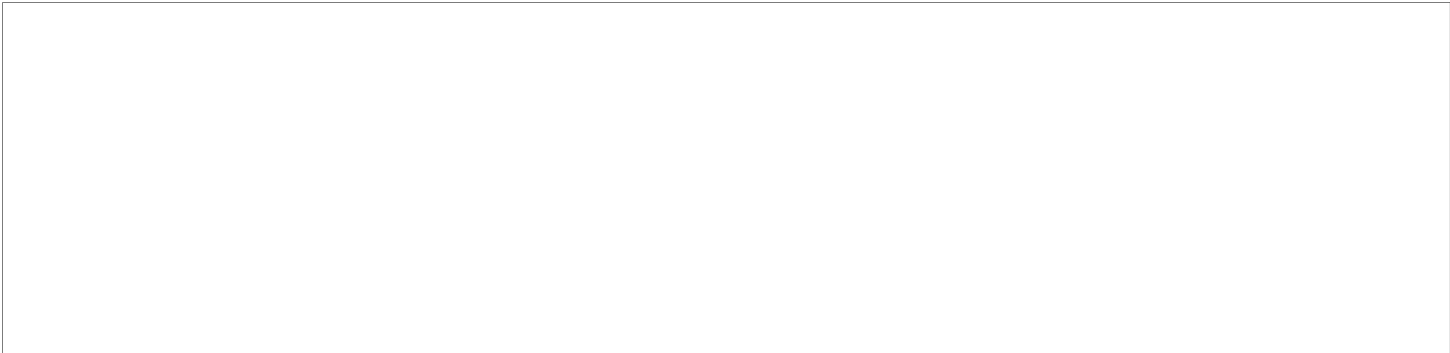


CEYLON

Iron and steel works, Homagama-  
Oruwala

The costs for the first stage of the four-stage project exceeded Soviet estimates of the cost of the total project by 105% and were 400% higher than for comparable complete installations in Israel and New Zealand. Its location is far from available iron ore deposits; water supply and transportation facilities are nonexistent. The project has experienced delays in the delivery of working drawings and machinery and equipment. The Soviets accused of misinterpretation of data on ground geology when the foundations for some equipment installations sank. Although Ceylon has some 35,000 tons of scrap iron available annually, Soviet plans for first stage construction, which includes a rolling mill, did not envision construction of a blast furnace to convert the scrap for use in the mill. Therefore, Ceylon must export scrap and import iron billets until the last stage of the mill is complete. Production, which is well in excess of Ceylon's needs, is not competitive in world markets.

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ETHIOPIA

Oil refinery at Assab

Ethiopians complain that the site at Assab was poorly chosen because it had no access to crude oil sources, no rail facilities for inland distribution, required construction of a ten-mile aqueduct to bring in water supplies. From the very start the Soviet blueprints needed correction and modification and the snags have not been eliminated to this time. The plant was scheduled to go onstream in 1964 and was finally inaugurated in 1967. By this time Ethiopian petroleum products requirements had multiplied and the capacity of the plant was inadequate. Too many technicians were required to run the plant, and operation costs were prohibitively high. In addition, construction costs, originally estimated at \$55 million, nearly doubled. Storage facilities have been inadequate resulting in periodic production cutbacks. Transportation costs are high and Ethiopia continues to be forced to import petroleum products. The quality of production is described as third rate, and consumers have had to modify equipment to use the oil. In 1969, the Ethiopians requested the USSR to double the capacity of the plant by 1971, but no agreement has been reached to date.

INDONESIA

Superphosphate plant,  
Tjilatjap

Although some \$10 million of equipment had been delivered, the project was abandoned in 1966 with construction half completed. The status of the plant is still uncertain, but in 1971 a Soviet team carried out a survey of equipment for this plant and the steel mill at Tjilegon. If it is decided to complete the project, it probably would require imported materials for their operation, as no deposits of sulphur or phosphate in sufficient quantity have been found in Indonesia. The previous decision to go ahead with the project was taken before geological surveys had been completed.

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Steel mill, Tjilegon

Project abandoned in 1966 with construction only one-fourth complete. The value of equipment received at the site totaled \$36 million. Numerous complaints were recorded even before work was stopped on the mill. It was located poorly, 40 miles from water supply, and extensive prospecting failed to yield evidence of economically exploitable iron ore deposits. Equipment reportedly was from a dismantled Siberian plant and deliveries were erratic. Operations would require imported iron ore, and cost of steel would be high.

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Road construction, Borneo

Only 30 miles of road were completed, most of which has deteriorated because of improper drainage. Indonesians constantly complained of breakdowns of Soviet machinery and equipment for this type of construction.

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Mechanized farm

The failure of the completed mechanized farm is tied to the inadequacy of Soviet roadbuilding techniques, as the installation could be reached only by the road mentioned above.

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INDONESIA (Cont'd)

Atomic reactor, Serpong

Abandoned by the Soviets in 1965, with most of the equipment delivered. In 1971, Indonesia cancelled plans for the project because equipment is in advanced state of deterioration.

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NEPAL

Hydroelectric plant, Panauti

Because this project was located in an area where seasonal fluctuations in water flow are great, the plant can operate at capacity for only four months a year, the rest of the time it is cut back to less than two-thirds of capacity. In addition, experts state that the dam is too narrow. [redacted]

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Sugar mill, Birganj

For several years, the mill operated at about 40% of installed capacity because of insufficient cane supply. Local demand for refined sugar was overestimated. Lost \$65,000 during the first year of operation. [redacted]

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Cigarette factory, Janakpur

This plant was designed originally to reduce substantially Nepalese imports of cigarettes from India, but it depends on tobacco imports for its operation. Initially operated at about 25% of capacity because of lack of tobacco. [redacted]

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Simra-Janakpur road

Finally completed in 1971 after ten years of construction.

SOMALIA

Various aid projects

Somali officials are dismayed at the \$10 million loss involved in four Soviet projects which probably will be abandoned. This amount must still be repaid with interest. The projects include an agricultural facility at Tug Wagiale and facilities at Belib for production of cotton, oil seed; and grain. Production from these facilities were planned to satisfy the nation's need for grain, supply raw material for food-processing industries, and provide income for repayment of loans and interest. [redacted]

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