

**Secret**



DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

## *Special Report*

*The Soviet Foreign Aid Program*

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### THE SOVIET FOREIGN AID PROGRAM

Moscow's expenditures on foreign aid are holding at about the \$2 billion\* per year level reached during 1967. Greatly stepped-up military and economic aid to North Vietnam and the replacement of military equipment that the Arab countries lost during the war with Israel account for this high level. Expenditures under Soviet military and economic agreements with non-Communist countries now average about \$700 million annually. Economic and military outlays for North Vietnam in 1967 amounted to another \$700 million and will remain substantial this year. Aid to other Communist countries is not as well catalogued, but assistance to Cuba alone, for example, amounted to \$300 million last year not including an additional \$200 million in sugar export subsidies.

Despite the extraordinary current requirements, the USSR has met its obligations under long-term aid programs to non-Communist countries and has exploited any new situation that turned up. Few did in 1967, but a number have this year.

Moscow reassessed its foreign aid policy just before Khrushchev fell in the fall of 1964 and the present regime is carrying out the policy set then. Because most Soviet foreign economic aid has been for projects to be developed under multiyear plans, new extensions of assistance tend to be bunched in certain years. Actual deliveries, however, usually are more evenly distributed.

The impact of aid deliveries on the USSR is mitigated by repayments. In recent years the ratio of repayments by non-Communist countries to Soviet aid deliveries to these countries has risen and now amounts to about 50 percent. Some countries such as India have exceeded this ratio, but others such as Indonesia, Ghana, and Somalia have fallen behind and may only make token payments. Soviet aid to North Vietnam and Cuba probably will never be repaid.

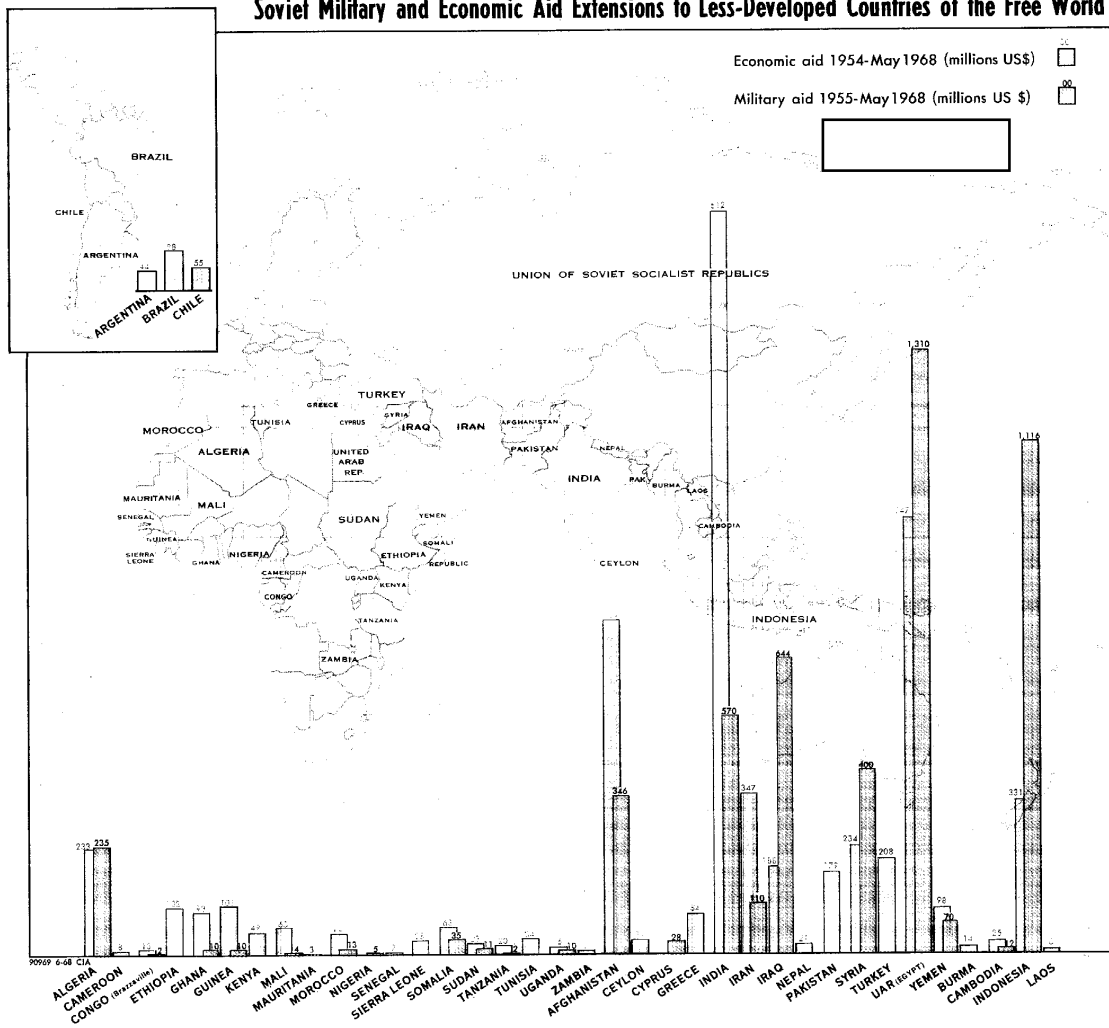
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\*All values given in US dollars.

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Soviet Military and Economic Aid Extensions to Less-Developed Countries of the Free World



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A somewhat tougher stance on extending future Soviet aid appears in prospect. Soviet Foreign Trade Minister Patolichev, at the second UNCTAD conference in New Delhi earlier this year, offered "full support" to the developing nations but made no specific offers of new economic assistance. He stated that the basic responsibility for economic development rests on the poor countries themselves. This position may stem from the backlog of \$3.5 billion in aid that the USSR has extended but not yet spent.

This situation has led the USSR to examine more critically the feasibility of new projects before extending long-term aid. The USSR also has turned to offers of shorter term commercial credits, which can be more quickly implemented.

Moscow has used economic aid to help achieve its political objectives, but military supply continues to have a more immediate and widespread impact. About \$4 billion worth of military equipment has been supplied to the non-Communist less-developed countries, while \$2.5 billion has been delivered under economic aid programs.

Aid to Non-Communist Countries:  
The Middle East

Over the past year, the major effort of the Soviets in the field of military aid has been the replacement of equipment destroyed or captured by Israel during the war in June 1967. Over two thirds of an estimated \$450 million worth of equipment lost has already been replaced.

Important changes in the mechanics of Soviet military aid programs have emerged from the Middle East resupply effort. For example, greater use is being made of airlifts to deliver materiel.



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where deliveries involved small quantities of equipment to isolated areas, such as to Yemen following the closure of the Suez Canal, air transport may be cheaper than other means.

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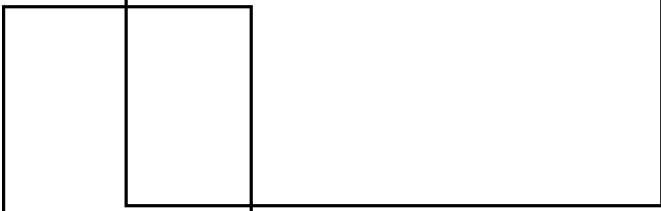
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The USSR signed its first arms agreement with the Sudan in January 1968, but deliveries under this agreement have not yet begun. Moscow may also add Southern Yemen to its list of clients for arms before the year is over. Delegations were exchanged earlier this year and negotiations are expected to continue over the next few months. Jordan, thus far, has refused Soviet offers of military equipment.

The Soviets moved quickly into the military vacuum left by the Egyptian withdrawal from Yemen.



Emergency economic aid shipments were made to the Arabs immediately after their defeat but it was not until the end of the year that Moscow began to assess its long-term economic commitments in the area. Then, in Egypt, Syria, and Iraq, the Soviets stressed the need to get projects completed as well as to get more production from existing plants.

At Iraq's request, however, Moscow did offer to help develop its petroleum industry. Soviet involvement in oil in other areas of the Middle East

is limited essentially to exploratory activities in Egypt and Algeria, and in the Iranian territorial waters of the Caspian Sea. Soviet aid to Syria's oil industry has contributed to a level of production that exceeds Syria's needs, and the USSR may have to assist in the disposal of some of the surplus.

Work on the Aswan Dam in Egypt has been accelerated. The entire project now is expected to be completed late next year; the main dam is to be finished this month. The electric power station was formally inaugurated in January--a year ahead of the original schedule--and all 12 turbines will be installed by the end of 1969. About 330,000 acres of new land are under cultivation as a result of the dam's storage capacity, and a further 450,000 acres are being reclaimed. In addition, about 765,000 acres, formerly irrigated only during the flooding season, have been provided with the water necessary for year-round cultivation.

The major Soviet effort in Egypt is beginning to shift from the Aswan Dam to the Helwan iron and steel project, for which the Soviets have committed about \$160 million in credits. Work on this \$800-million project was being held in abeyance because of heavy cuts in Cairo's economic development budget after the Arab-Israeli war. The project currently is scheduled to be started next month and to be completed by 1975, when production of pig iron will reach 1,750,000 tons annually and steel 1.5 million tons.

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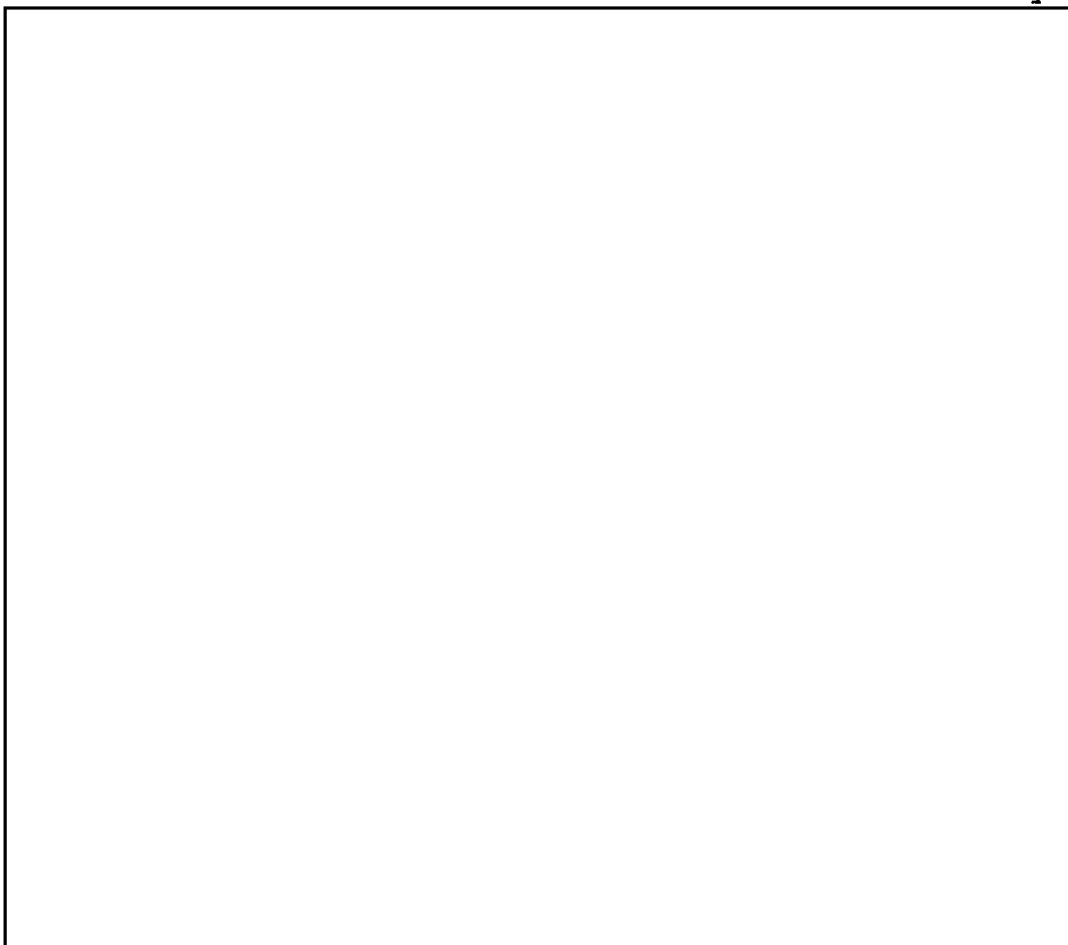
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Construction of the Euphrates Dam--the major Soviet aid project in Syria--began in March and by the end of this year 320 Soviet technicians are to be employed at the site. The first stage of the dam, due to be completed in 1972, will provide water to irrigate 570,000 acres and will produce 300,000 kilowatts of electricity.

The beginning of work on the dam in Syria may lead the Iraqis to accept a long-standing Soviet offer to help them build a dam on the Euphrates. The subject may be raised during the current visit

to Moscow by the Iraqi minister of industry, whose primary purpose is to discuss once again ways of meeting the time schedules of Soviet aid projects. Although Iraq has drawn down a higher percentage of Soviet credits than any other Arab country, progress on projects has been extremely slow, in part because of shortages of qualified Iraqi contractors and skilled labor. Bureaucratic inadequacies and poor planning by the USSR have also been factors.

The Soviet economic aid programs in Iran and Turkey are moving



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ahead and new credits probably will be extended to both countries. Construction of Tehran's first steel plant started in March and work is proceeding on the joint Aras Dam project, on the development of iron and coal mines, and on new harbor facilities at Bandar Pahlavi on the Caspian Sea.

In the petroleum field, Soviet assistance was expanded to include the drilling of an exploratory well in the Caspian offshore area, which may eventually lead to an agreement for Soviet assistance in the exploitation and marketing of Iranian oil from that area. Negotiations on the Soviet segment of the natural gas pipeline were protracted, however, and the Soviet section will be completed nine months later than originally estimated. Moscow is studying the feasibility of a variety of other projects such as the construction of a new port on the Caspian, development of copper, lead, and zinc mines, and a network of dams and irrigation projects on the Atrek River. New Soviet credits totaling several hundred million dollars probably will be forthcoming.

Construction has begun on an aluminum plant and an oil refinery in Turkey, and contracts have been signed for five other projects including a steel mill with a projected annual output of one million tons. The total costs

of the projects to be financed by the USSR exceed the \$200 million specified in the 1967 agreement, and negotiations to raise the original credit to \$300-350 million probably will be held soon.

Moscow took advantage of the anti-Western sentiment that prevailed after the Arab-Israeli war to offer economic assistance to some of the more conservative Arab states. Soviet delegations were sent to Lebanon and Jordan to survey potential aid projects but, in both cases, the delegation returned to Moscow without concluding any agreements.

#### Africa

Last year, Mauritania and Zambia were added to the list of Soviet aid clients in Africa and Chad may soon get some Soviet assistance. A Soviet economic delegation is in Chad now to examine the possibilities.

Apparently after months of deliberation, Moscow extended a new credit of \$16.5 million to Guinea in an effort to revitalize existing aid projects there. Certain projects--such as a sawmill and plywood plant, a cannery, and a fish freezing facility--could not operate economically because of a lack of raw materials and markets. Moscow apparently has disassociated itself from the Kamarato hydroelectric project, as it earlier had done with the Konkoure complex, consisting of a dam, a hydroelectric project, and an aluminum smelter.

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In Mali, work continued on the construction of a cement plant. Mali's efforts to obtain additional Soviet aid apparently met with no success, although Moscow reportedly did agree to ease Mali's debt repayments.

Following up the good will generated by its supply of military equipment to the federal government of Nigeria, the USSR revived its offer of a \$56 million credit, gearing it in part for reconstruction of war damage. The Russians also completed feasibility surveys for a steel plant but to date no agreements have been signed.

The slow progress of the USSR's economic aid program in Algeria continues to plague both countries. Despite steps taken earlier this year to accelerate things--particularly the start of construction on the Annaba steel complex--there is still little to show.

Better progress is being made in Morocco. A contract was signed early this year for the construction of a thermal power plant. Soviet plans for a hydroelectric station on the Dra River were completed and preliminary studies were conducted for a metallurgical plant and a training center as well as for a mineral treatment plant.

In East Africa, Soviet economic aid programs continue moving at a snail's pace. The only activity in Tanzania has been the arrival late last year of a geological team to carry out sur-

**SOVIET MILITARY EQUIPMENT DELIVERED TO  
LESS-DEVELOPED COUNTRIES  
OF THE FREE WORLD\*(1955-present)**

<b>Land Armaments</b>	
Heavy, medium and light tanks	4,700
Armored personnel carriers	3,700
Artillery	7,500
<b>Naval Ships</b>	
Destroyers	20
Submarines	28
Motor torpedo and missile boats	140
Other naval craft	235
<b>Aircraft</b>	
Medium and light jet bombers	285
Jet fighters	1,600
Heavy transports	87
Other aircraft	1,200
<b>Missiles</b>	
Surface-to-air missile battalions	63

\*A small quantity of East European equipment is included.

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veys and of a group that came several months later to study the hydroelectric potential of the Kiwira River. In Uganda, agreement was finally reached on Soviet assistance for a textile factory and a training school for mechanics. Soviet road construction equipment and supplies have begun to arrive. Negotiations now under way in Ethiopia on the use of \$80 million in credit outstanding since 1959 may result in the initiation of some new Soviet projects, particularly the construction of schools and hospitals.

The USSR continued to deliver military equipment to Nigeria

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under a \$5-million arms agreement signed last July. Moscow entertained military delegations from Mali, Tanzania, and Guinea, but only Tanzania is known to have concluded a new arms agreement.

#### South and Southeast Asia

In February, the USSR extended to Afghanistan a credit of about \$127 million for its third five-year plan (1967-72). The credit will include \$92 million for new project aid (most of which has been allocated for geological surveys), \$19 million for commodities to generate currency to cover local costs, and \$16 million to provide equipment for Soviet-aided projects carried over from the second plan.

During Premier Kosygin's visit to Pakistan in April, the USSR agreed to conduct feasibility studies for a steel mill and a nuclear power plant. In India, the Soviets finally began work on the first stage of the giant Bokaro steel complex. Some 250 Soviet technicians are at the site and the first stage is due for completion in 1971. The Soviets also have offered to train more Indians in the management of Soviet-aided projects in the public industry sector.

The Soviets have not extended any economic credits to Southeast Asia since 1966 but have moved ahead on existing projects under outstanding credits.

Indonesia's President Suharto finally approved a 1966 Soviet-Indonesian protocol for rescheduling the payment of about \$800 million owed the USSR for economic and military assistance. The USSR has dropped a number of aid projects and postponed the start of work on a steel mill and a fertilizer plant until local financing is available.

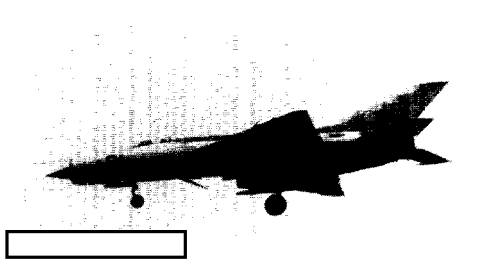
In the military aid field, the Soviets have agreed to provide additional supplies to India, including more MIG-21 jet fighters to meet requirements that planned domestic production failed to fulfill. At the same time, Moscow has concluded a new commercial contract with Pakistan covering the delivery of MI-8 helicopters. On his recent visit to Rawalpindi, Kosygin may have promised Pakistan more military assistance. A Pakistani military delegation is scheduled to leave for Moscow in late June.

A new agreement with Afghanistan, which relies almost exclusively on the USSR for arms, is valued at an estimated \$110 million and probably encompasses a wide range of equipment including MIG-21s and medium tanks.

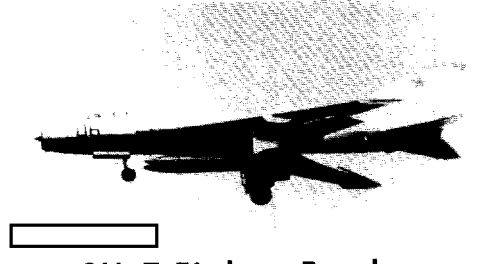
As a concomitant to closer relations with Cambodia, an agreement valued at just under \$6 million covering the supply of MIG-17s, some field artillery, ammunition, and support equipment was concluded in February.

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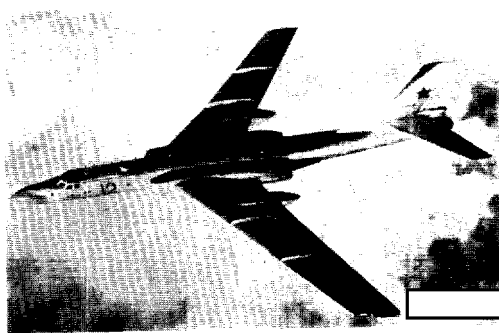
# MAJOR SOVIET EQUIPMENT BEING DELIVERED TO UNDERDEVELOPED COUNTRIES



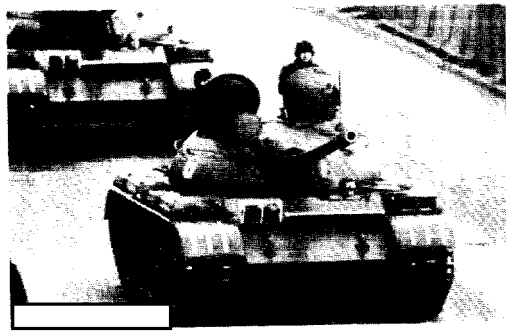
MIG-21 Jet Fighter



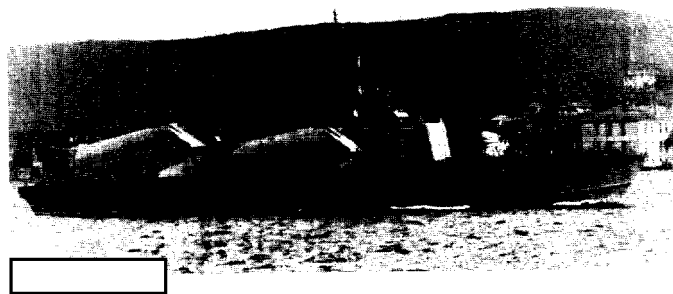
SU-7 Fighter Bomber



TU-16 Jet Medium Bomber



T-55 Medium Tank



OSA Guided Missile Boat

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Soviet military supply to Indonesia, dormant since the anti-Communist coup in the fall of 1965, has been resumed on a limited scale. The Soviets are providing Indonesia with some \$10 million worth of technical assistance and with spare parts on a cash-and-carry basis. This assistance will enable Djakarta to keep some of its aircraft and surface-to-air missile (SAM) equipment operational and will allow some refitting of naval craft.

#### Latin America

The Soviets are continuing their efforts to improve economic relations with Latin American countries. A Chilean economic delegation visited Moscow earlier this month to discuss implementation of a \$55-million credit extended over a year ago. Chile is considering a Soviet offer to build a fish-processing plant. Large Peruvian and Venezuelan economic delegations also have recently visited Moscow, although no Soviet aid offers are known to have resulted. Uruguay is planning to sign a long-discussed \$20-million export credit, probably during a visit of Uruguayan officials to Moscow next month.

Soviet efforts are not likely to result in any substantial broadening of Soviet trade in Latin America during the next several years. A high-level Soviet economic delegation recently in Brazil failed to interest private firms in using any of the out-

standing \$100-million credit extended in 1966. The Brazilians did express interest in receiving Soviet offers of equipment for irrigation programs, commercial fishing, and the construction materials industry. Even though the bulk of the commitments to Chile and Brazil consist of trade credits and provide for a substantial part of this aid to be made available to the private sector, businessmen's doubts about the quality of Soviet goods, the compatibility of Soviet equipment with that obtained from Western companies, and the availability of servicing and spare parts have prevented the rapid development of trade and probably will continue to impede it.

The Soviets have been particularly active in the past year in offering civilian transport aircraft on attractive credit terms to Colombia, Brazil, and Uruguay, but no sales have as yet been concluded. Other Soviet trade credit offers are outstanding to Colombia and Costa Rica.

#### Aid to Communist Countries

The USSR furnishes sizable economic and military aid to its Communist allies. Moscow remains the principal supplier of economic and military aid to North Vietnam, which last year totaled about \$200 million and \$500 million, respectively.

The economic aid has been primarily transportation equipment and consumer goods, especially

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petroleum and foodstuffs. The nature of Soviet aid may change, however, with the bombing suspended over most of North Vietnam. Just before the bombing halt, the Soviets became more involved in development projects than they has been in almost two years. The Soviets are assisting in a port-improvement project at Haiphong and are probably helping to reconstruct power plants and the Haiphong cement plant.

Military aid consists of aircraft, SAM equipment, armor, and artillery. This aid has been increasing rapidly since 1965, primarily because of rapidly growing ordnance requirements, especially for SAMs.

North Korea has turned increasingly toward the Soviets for economic aid since relations began to improve in 1965. Soviet assistance, however, has been primarily in the form of equipment and technical support through bilateral trade. The Soviets have also increased deliveries of military aircraft, naval craft, and air defense equipment.

Last year, the Soviets agreed to supply Mongolia with supplementary aid of about \$550 million for its current five-year plan. Soviet aid for the plan, which ends in 1970, is now in excess of \$1 billion. A number of Soviet aid projects were completed in the past year, in-

cluding a power plant at Darhan and power lines from the plant into Ulan Bator.

Major Soviet economic support to Cuba was assured for another year with the signing of an annual trade agreement in March after months of protracted negotiations. A \$328-million credit agreement will help Cuba finance its imports from the USSR--the largest annual credit for this purpose since 1963. No new major projects have been undertaken and work on earlier Soviet aid projects continues to make slow progress. Soviet technicians are still working on Cuba's principal steel mill and are aiding in the renovation and expansion of Cuba's sugar mills. Most of the 2,000 Soviet economic specialists now believed to be in Cuba are engaged in advisory roles the general operation and management of the Cuban economy. Soviet military aid to Cuba continues, but the pace of deliveries has slackened considerably from last year.

The USSR has extended no new economic aid to Eastern Europe since 1966, except for a \$10-million gold credit extended to Hungary last year. Outstanding credit balances at the end of last year, however, amounted to \$340 million to Poland, Rumania, and Bulgaria; an additional \$160-million credit balance remained with Yugoslavia.

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