

*DDI Registry*

<b>TRANSMITTAL SLIP</b>		DATE
TO: <del>Deputy Director for Intelligence</del>		
ROOM NO. 7E44	BUILDING Hdqs.	
REMARKS:		
FROM: [redacted], Director of African and Latin American Analysis		
ROOM NO. 3F45	BUILDING Hdqs.	

FORM NO. 241 REPLACES FORM 36-8 (47)

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DDI- 3053-83/

Directorate of Intelligence  
Office of African and Latin American Analysis

2 May 1983

NOTE FOR: Deputy Director for Intelligence

Bob,

Attached is the revised package responding to the DCI's memo of 25 April 1983. We have recrafted the covering memo according to your specifications and adjusted the country profiles to highlight 1982 Soviet aid deliveries.



Director

Attachment:  
As stated

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Central Intelligence Agency  
Office of the Deputy Director for Intelligence

2 MAY  
1983

NOTE FOR: Director of Central Intelligence

The attached responds to the questions you raised in your 25 April memorandum. Your questions were based on [redacted] the same. This memorandum provides an explanation of our estimate that Soviet support for Cuba is over \$5 billion per year. In addition, economic surveys of the five countries you listed in your memorandum have been included.

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[redacted]  
Robert M. Gates  
Deputy Director for Intelligence

DDI  
2 May

2 May 1983

## MEMORANDUM

SUBJECT: Soviet Assistance to Cuba and Four Other Client States

We estimate Soviet aid to Cuba increased substantially from the 1980 level (\$3.2 billion) to \$4.5 billion in 1981 and \$5.3 billion in 1982 due to:

- the large increase in trade subsidies, the major component of aid.\*
- the 80 percent increase in the Cuban soft-currency trade deficit with Moscow over the two years as Soviet exports to Cuba increased more than its imports from Cuba.
- the escalation of military aid in both 1981 and 1982 to levels that were more than twice the 1980 level, a reflection of the two-year old Cuban military modernization program.

In comparison to the deliveries to Cuba, total Soviet economic and military aid deliveries to four other selected Soviet client states (Angola, Ethiopia, Mozambique, and Vietnam) fell off marginally in 1981 and 1982 (\$1.7 billion and \$1.8 billion respectively) from the 1980 level (\$2.1 billion). This is largely the result of Moscow's role in 1980 in reequipping Hanoi's armed forces following the border war between Vietnam and China and the return of military assistance to normal levels thereafter. Notably, Soviet economic assistance deliveries to Angola and Mozambique remained at fairly low levels during this three-year period despite the increased economic problems experienced by these Soviet clients.

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\*Subsidies are provided for Cuban sugar exports and petroleum imports. The values are calculated as the difference between the average world market price and the price the Soviet Union pays (or charges, in the case of oil). The sugar subsidy increased 22 percent in 1981 and 90 percent in 1982 due to the sharp decline in world market prices over the period, the maintenance of Soviet prices at 40-42 cents a pound, and the increase in Cuban sugar exports to Moscow. The oil subsidy remained about the same at \$1.4 billion as world market oil prices and Soviet deliveries to Cuba stabilized.

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Total Soviet aid deliveries to each of these four client states and to Cuba since 1980 stand as follows:\*

	<u>Million US \$</u>		
	<u>1982</u>	<u>1981</u>	<u>1980</u>
<u>Angola</u>	<u>185</u>	<u>91</u>	<u>140</u>
Economic	5	17	3
Military	180	74	137
<u>Cuba</u>	<u>5,290</u>	<u>4,500</u>	<u>3,250</u>
Economic	4,700	3,900	2,995
Military	590	600	255
<u>Ethiopia</u>	<u>344</u>	<u>275</u>	<u>520</u>
Economic	234	80	63
Military	110	195	457
<u>Mozambique</u>	<u>76</u>	<u>30</u>	<u>38</u>
Economic	16	3	4
Military	60	27	34
<u>Vietnam</u>	<u>1,221</u>	<u>1,322</u>	<u>1,370</u>
Economic	950	950**	415
Military	271	372	955

Attached are surveys of the economic situations in each of the five countries, their vulnerabilities, and Soviet economic and military aid to each.



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\*Excludes other Warsaw Pact donors. See attached tables for a detailed breakdown of Soviet assistance to these five client states since 1975.

\*\*Reflects increases in prices the USSR charged Vietnam for oil.



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## ANGOLA

The Economic Situation

Luanda has been unable to reverse the steady economic decline that started when Portugal granted the country independence in 1975. Once an agricultural exporter, the country now has to import 90 percent of its food. Even so, food shortages are widespread in urban areas. Moreover, Angola's rail system has come to a standstill because of attacks by antigovernment insurgents. Manufacturing has dropped sharply from pre-independence levels, and even the most basic manufactured items are not available. Unemployment is high, even by LDC standards. Until last year, however, Angola's domestic poverty was camouflaged by sharp increases in world oil prices--petroleum contributes 80 percent of Angola's export earnings. [redacted]

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Soviet Assistance

In 1982, the Soviets delivered \$5 million of economic assistance and \$180 million of military assistance to Luanda that we were able to identify. With these deliveries, total identifiable Soviet aid deliveries to Angola since 1976 rose to \$806 million (\$32 million of economic assistance and \$774 million in military aid).\*

Economic Aid. Total Soviet economic aid pledges to Angola over the past seven years far exceed actual deliveries (\$439 million in pledges versus \$32 million in actual deliveries). [redacted]

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[redacted] Soviet aid to Angola is not very concessional--10 year repayments at up to market rates and hard currency payments for technical services. [redacted]

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Military Aid. The Soviet Union and its allies supply virtually all of Angola's military hardware and ammunition. The USSR itself has provided Angola with \$774 million in military equipment since 1976, much of it on favorable financial terms. The bulk of the Soviet equipment was delivered in the mid- to late 1970s. It included old and unsophisticated tanks and other ground force equipment as well as more advanced air defense equipment such as MIG-21 fighters, SA-3 missiles, air defense radars, and anti-aircraft guns. A new surge of deliveries since mid-1982 has included late-model medium tanks and APCs, multiple rocket launchers, OSA missile patrol boats, MIG-21s, and SA-8 missiles. At present there are 1000 to 1500 Soviet military personnel in

\*See attached tables for detailed breakdowns of Soviet assistance to Angola.

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Angola, serving in a variety of advisory, technical and instructional positions. The Soviets share these duties with personnel from several allied countries, most significantly Cuba and East Germany. [redacted]

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Vulnerabilities

The recent plunge in oil prices has placed Angola in an almost impossible situation. The government is virtually bankrupt. It had been earning about \$2.2 billion per year from oil revenue, but knowledgeable press sources report that about \$2 billion of that went to Cuba and other Soviet bloc governments in payment for their military and technical assistance. Because of declining oil revenue--expected to drop to below \$1.5 billion in 1983--Luanda has fallen behind in its payments and will be unable to meet these obligations in full. [redacted]

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The government's oil-related financial problems, the overall deterioration of the economy, and Soviet stinginess with nonmilitary aid are major factors behind the dos Santos government's interest in a Namibia settlement and in better relations with the West. [redacted]

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## CUBA

The Economic Situation

The Cuban economy, in our judgment, is facing its most difficult period since Fidel Castro took power in 1959. Plunging sugar sales (the result of low world prices and recent heavy rains at home), the weakening position of other hard currency exports, and continued lender wariness, all point to serious foreign exchange stringencies and declining national output in 1983. As a result, hard-currency imports will have to be reduced, affecting the domestic transport, construction, and power sectors and retarding development of exports. In addition, for at least the next 12 to 18 months, Cuba's already austere standard of living will slip even further as consumer goods become scarcer and public health declines because of pharmaceutical and sanitary equipment shortages. [redacted]

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Soviet Assistance

In 1982, the Soviets delivered an estimated \$4.7 billion of economic assistance and \$590 million of military assistance to Havana. With these deliveries, total estimated Soviet aid to Cuba since 1961 rose to nearly \$32 billion (\$28.4 billion of economic assistance and \$3.4 billion in military aid).\*

Economic Aid. Since the mid-1970s, Soviet aid to Cuba has consisted primarily of trade subsidies. In 1982, for example, Moscow paid the equivalent in transferable rubles of about 42 cents per pound for its Cuban sugar imports or nearly five times the current world market price. In addition, it charged Havana only about \$16 per barrel for its oil imports or half the OPEC benchmark price. This form of aid is non-repayable, and totals almost \$20 billion since 1961. [redacted]

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Moscow also permits the Castro government to run soft-currency trade deficits with the USSR and provides funds for specific development projects. This aid has totaled about \$8.4 billion since 1961. It is repayable, but the Cubans claim it is financed for 15 to 17 years with a five year grace period and no interest charges. In practice, most of it probably will be excused. [redacted]

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Military Aid. Soviet military deliveries to Cuba in 1982 continued to support the major modernization program that has been underway in the Cuban armed forces since the mid-1970s. Moscow sent Cuba some [redacted]

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\*See attached tables for detailed breakdowns of Soviet assistance to Cuba.



military goods last year--worth \$590 million--down from [redacted] shipped in 1981 (worth \$600 million). Aircraft, air defense equipment, arms and naval vessels accounted for [redacted] of the total. The remaining [redacted] was comprised of trucks, bulldozers, electronics vans and other military-associated equipment. [redacted]

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Soviet arms to Cuba provide a visible and concrete affirmation of Moscow's support for Castro's regime, and are partially a response to his pleas for more effective weapons to defend against the threat of a US military reaction to his operations in Central America. Besides giving Cuba's armed forces greater stature in the region, these arms provide Havana a limited capability to intervene on behalf of other leftist governments and provide support to revolutionary movements. [redacted]

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### Vulnerabilities

Cuba would be adversely affected by a reduction in Soviet economic assistance, particularly in light of its current serious foreign exchange constraints. Havana is especially vulnerable in the area of subsidized oil deliveries which account for 95 percent of its oil needs or over 75 percent of its total energy requirements. A reduction in these deliveries of over 10 percent would force Havana to spend precious hard currency for oil imports to maintain economic activity. [redacted]

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Decreases in the price paid for sugar, increases in the price charged for oil, or the discontinuation of trade deficit financing would limit Cuba's ability to import from Moscow. This, in turn, would have reverberations throughout the Cuban economy as Havana depends on the Soviet Union for 60 to 70 percent of its total imports, including consumer, capital and intermediate goods. [redacted]

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## ETHIOPIA

The Economic Situation

After two years of 5- to 6-percent real growth in 1978-79, the first expansion in per capita income since the 1974 revolution, the economy has stagnated. Food production, the centerpiece of Mengistu's ambitious development program, has been particularly disappointing. Drought and the government's strong emphasis on collectivization have eliminated Ethiopia from the ranks of net food grain exporters. Coffee exports, which traditionally account for nearly 60 percent of total export revenue--have been hit by several years of low world prices. Coffee production is also showing the impact of government tampering with producer prices and the transport and tax hikes that retard planting and harvesting alike. The decline in coffee sales since 1980 has been the primary factor in Addis Ababa's steadily rising current account deficits. [REDACTED]

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Soviet Assistance

In 1982, Moscow delivered to Ethiopia an estimated \$110 million in military equipment and \$234 million in economic goods that we can identify. Economic aid was substantially greater than for previous years, and, in our judgment, reflects stepped-up activity in oil exploration, the only project of any significance to have advanced beyond the feasibility stage. Last year's deliveries increased total identifiable Soviet disbursements to the Mengistu regime to \$2.6 billion, including \$2.2 billion in military aid and \$400 million in economic assistance.\*

Economic Aid

Despite last year's increase in outlays, Soviet economic aid to Ethiopia has been disappointing. Since 1975, disbursements have totaled about \$400 million, compared with \$540 million in commitments. Moreover, Western aid during the same period totaled nearly \$1.2 billion. With the exception of the oil exploration project, development assistance has involved little more than signing protocols totaling \$300 million for a power and irrigation project and a cement plant, and sending several hundred economic and technical advisers. Only petroleum subsidies--Moscow has supplied all of Ethiopia's oil needs since 1980--have kept Soviet economic deliveries to Ethiopia far above those for other African clients. [REDACTED]

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\*See the attached table for a breakdown by year of Soviet military and economic deliveries.

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Military Aid

Soviet military involvement in Ethiopia, on the other hand, has increased sharply since late 1976. Moscow has agreed to supply [redacted] military equipment, helping to fill the vacuum created by the deterioration in US-Ethiopian ties after the 1974 revolution. About \$2.2 billion worth of military arms already has been delivered. The Soviets now have an estimated 1,700 military advisers in Ethiopia. In addition, Cuba has 9,000 to 11,000 troops and advisers. [redacted]

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Vulnerabilities

Although we see signs of growing concern within the Ethiopian government about the deteriorating economy, [redacted] does not suggest that economic conditions alone will spark a move to oust Mengistu or persuade him to move closer to the West. Therefore, he is unlikely to make the political concessions needed to attract significant amounts of Western funds. At the same time, we do not expect him to cut himself off from the West and lose access to his main source of economic assistance. [redacted]

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Of far more importance to Mengistu is the need to keep Soviet money and equipment flowing to the military in order to deal with various insurgencies and to keep the Somalis at bay. Repayments in hard currency to the Soviets for military equipment are to rise substantially next year at a time of foreign exchange problems for Addis Ababa. This could become an irritant in Soviet-Ethiopian relations, but we believe that Moscow will continue to show considerable flexibility in dealing with the problem so as not to jeopardize its critical relationship with the Mengistu regime. [redacted]

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## MOZAMBIQUE

The Economic Situation

Mozambique is making scant headway in filling the economic void left when all but about 10,000 of the over 200,000 Portuguese who were in the country emigrated shortly after independence in 1975. GDP is no more than about three fourths of pre-independence levels, according to our estimates. Sketchy data indicate that production of key export crops--cashew nuts, sugar, and cotton--totals only about half of pre-independence levels, manufacturing output is less than half of capacity, and construction has nearly halted. Prospects for economic recovery anytime soon are poor. The NRM campaign in our view severely dampens any chance for a pickup in badly needed foreign investment and is causing some aid projects to be scuttled. Drought over the past several years has ruined crops. Moreover, problems caused by shortages of technical skills and management talent and by the snarled personal and market incentives of the socialist system will continue to keep productivity low.

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Soviet Assistance

In 1982, the USSR delivered \$16 million of economic assistance and \$60 million of military assistance to Mozambique that we were able to identify. With these deliveries, total identifiable Soviet aid deliveries to Mozambique since 1975 rose to \$330 million (\$40 million in economic assistance and \$290 million in military assistance).\*

Economic Assistance. Aid from the Soviet Union probably will not contribute significantly to economic recovery. The \$40 million in economic aid the Soviet Union has disbursed over the past eight years represents less than five percent of the total aid received by Maputo during this period. The USSR has promised \$140 million more in assistance, mostly for small projects such as schools, technical aid to state farms, geological prospecting, and mining. Moscow also has plans to develop agriculture in the Limpopo valley, to construct a railroad, and to build hydropower projects, which could result in substantial trade credits over the next few years.

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Military Assistance. The USSR has been the primary source of military aid to President Machel's regime since 1975. The \$290 million of military equipment the Soviets had delivered by the end of 1982 includes air defense weapons, tanks, APCs, MIG-17 fighters, small arms, and ammunition. The

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\*See attached tables for detailed breakdowns of Soviet assistance to Mozambique.

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Soviets have made several new deliveries of heavy equipment since last summer. Among the items delivered have been advanced BMP infantry fighting vehicles and, in recent weeks, MIG-21 fighters. At present there are some 500 Soviet military advisers in Mozambique.

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Vulnerabilities

Although food production is the economy's most vulnerable area, the Machel government probably would also be receptive to offers of foreign aid or investment in manufacturing, mining, and transportation. Mozambique will continue to have to rely on foreign donors, including the US, to make up food shortfalls.

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VIETNAM

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The Economy

The Vietnamese economy improved slightly during 1981 and 1982. Good weather and incentive programs introduced in rural areas raised output by roughly 1 million tons a year to 16.2 million tons in 1982. Because the USSR reduced grain aid by roughly the same amount, however, net food supplies in Vietnam have stagnated. Industrial output also benefited from incentive programs and began stabilizing in 1981 after declining during 1978-80. Most of the improvement has been in light industry. With about \$1 billion in annual economic aid from the USSR and an estimated \$100-200 million of currency and consumer goods sent home annually by overseas Vietnamese, Vietnam now has sufficient food and daily necessities, although the standard of living remains quite low.

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Soviet Aid

[redacted] the USSR delivered \$950 million in economic aid and \$270 million in military aid in 1982. The mix of economic aid appears to have shifted from commodities to the construction of capital industries as Vietnamese agricultural and light industrial production has improved. Since 1975, identifiable Soviet aid to Vietnam has totalled more than \$7 billion; about 60 percent of which has been economic aid.

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Economic assistance. Data Hanoi provides [redacted] indicate that Soviet economic assistance is primarily in the form of grain--some 300,000 tons a year--and oil products--about 30,000 b/d--for which Vietnam pays about half the world price. Other aid includes hard currency loans to buy raw materials and equipment for factories in the south which are equipped mostly with Western machinery, industrial raw materials and semifinished products, fertilizer, and some consumer goods. The Soviets are also building some 40 industrial projects, including the Da River hydroelectric project slated to have a 1400 MW capacity in the 1990s, thermal power plants, coal mines, and engineering shops. In addition, the Soviets are conducting offshore oil exploration and exploitation through a joint-venture company with Hanoi.

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Recent Western press reports indicate that the COMECON countries will soon reduce their economic aid to Vietnam by 20 percent, resulting in a loss of about \$30 million a year from

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Eastern Europe and presumably much more from the Soviet Union.  
East European [redacted]

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[redacted] governments recognize aid to  
Vietnam as a long-term commitment and that increases are  
inevitable. [redacted]

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Military Assistance. Soviet military assistance has dropped to about \$300 million a year since the completion of Vietnam's military buildup against China in 1979-80. The Soviets have supplied Fitter SU-22 attack aircraft, Hind attack and Hormone antisubmarine warfare helicopters, as well as Styx, Sepal, and Scud surface-to-surface missiles. All of this equipment is deployed along Vietnam's northern border. As a result of Soviet deliveries, the balance of military power has shifted dramatically in Vietnam's favor. We estimate that Vietnam's forces have a three-to-one armor and an almost two-to-one artillery superiority over Chinese forces now located along the border. The Soviets also supply weapons, ammunition, and fuel for Vietnamese forces in Kampuchea. [redacted]

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#### Vulnerabilities of the Vietnamese Economy

Vietnam's food supply remains vulnerable to weather. Unusually bad weather in 1978 and 1979, for example, resulted in a shortfall that required imports of 1.5 million tons of Soviet-supplied grain. Nevertheless, irrigation systems have not been improved since 1979. [redacted]

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Vietnam is totally dependent on imported oil, which is crucial to the irrigation and transportation systems as well as to power generation in the central provinces. Between 1975 and 1982, Vietnam obtained almost \$1 billion in loans from Middle East and African countries to buy oil. These loans dried up because of Vietnam's inability to repay, forcing Hanoi to turn to the Soviets for more than 90 percent of its oil. [redacted]

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Hanoi is also concerned that the private sector in the south may run out of control. Leadership speeches often refer to the dilemma of how to collectivize the Mekong Delta peasants without reducing the 5 million tons of grain a year that they contribute to the economy. Although collectivization has been stepped up over the past year, Hanoi will be quick to abandon the program if production shows signs of declining. [redacted]

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USSR: Economic and Military Agreements with  
Selected LDCs, 1975-82<sup>(1)</sup>

(Million US \$)

	Total	1982	1981	1980	1979	1978	1977	1976	1975
ANGOLA	<u>1,221</u>	<u>500</u>	<u>157</u>	<u>13</u>	<u>33</u>	<u>28</u>	<u>49</u>	<u>441</u>	<u>(2)</u>
Economic	439	400	..	..	Negl	2	11	26	..
Military	782	100	157	13	33	26	38	415	(2)
CUBA	<u>24,526</u>	<u>5,290</u>	<u>4,500</u>	<u>3,250</u>	<u>3,336</u>	<u>3,256</u>	<u>2,050</u>	<u>1,723</u>	<u>1,121</u>
Economic	22,205	4,700	3,900	2,995	3,105	2,970	1,980	1,505	1,050
Military	2,321	590	600	255	231	286	70	218	71
ETHIOPIA	<u>4,480</u>	<u>180</u>	<u>1,762</u>	<u>315</u>	<u>94</u>	<u>752</u>	<u>1,125</u>	<u>250</u>	<u>2</u>
Economic	544	170	62	189	94	2	25	..	2
Military	3,936	10	1,700	126	..	750	1,100	250	..
MOZAMBIQUE	<u>494</u>	<u>5</u>	<u>45</u>	<u>67</u>	<u>141</u>	<u>..</u>	<u>46</u>	<u>152</u>	<u>38</u>
Economic	178	5	45	67	..	..	5	42	14
Military	316	(3)	..	..	141	..	41	110	24
VIETNAM	<u>6,838</u>	<u>1,146</u>	<u>1,146</u>	<u>1,334</u>	<u>1,724</u>	<u>335</u>	<u>513</u>	<u>337</u>	<u>303</u>
Economic	4,045	950	950	415	570	335	290	305	230
Military	2,793	196	196	919	1,154	..	223	32	73

(1) Excludes other Warsaw Pact donors.

(2) About \$100 million in Soviet arms assistance provided to MPLA prior to Angola's independence is excluded.

(3) We believe a new, large military agreement was probably signed during the last year; as yet no information on the value and content has been disclosed.



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USSR: Economic and Military Assistance Deliveries  
to Selected LDCs, 1975-82<sup>(1)</sup>

(Million US \$)

	<u>Total</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
ANGOLA	<u>806</u>	<u>185</u>	<u>91</u>	<u>140</u>	<u>102</u>	<u>144</u>	<u>79</u>	<u>65</u>	<u>..</u>
Economic	32	5	17	3	3	1	2	1	..
Military	774	180	74	137	99	143	77	64	..
CUBA	<u>24,526</u>	<u>5,290</u>	<u>4,500</u>	<u>3,250</u>	<u>3,367</u>	<u>3,286</u>	<u>2,076</u>	<u>1,636</u>	<u>1,121</u>
Economic	22,205	4,700	3,900	2,995	3,105	2,970	1,980	1,505	1,050
Military	2,321	590	600	255	262	316	96	131	71
ETHIOPIA	<u>2,654</u>	<u>344</u>	<u>275</u>	<u>520</u>	<u>189</u>	<u>1,018</u>	<u>302</u>	<u>3</u>	<u>3</u>
Economic	408	234	80	63	6	18	2	3	2
Military	2,246	110	195	457	183	1,000	300	Negl	1
MOZAMBIQUE	<u>330</u>	<u>76</u>	<u>30</u>	<u>38</u>	<u>37</u>	<u>95</u>	<u>21</u>	<u>10</u>	<u>23</u>
Economic	40	16	3	4	2	4	3	8	..
Military	290	60	27	34	35	91	18	2	23
VIETNAM	<u>6,989</u>	<u>1,221</u>	<u>1,322</u>	<u>1,370</u>	<u>1,734</u>	<u>400</u>	<u>302</u>	<u>337</u>	<u>303</u>
Economic	4,045	950	950	415	570	335	290	305	230
Military	2,944	271	372	955	1,164	65	12	32	73

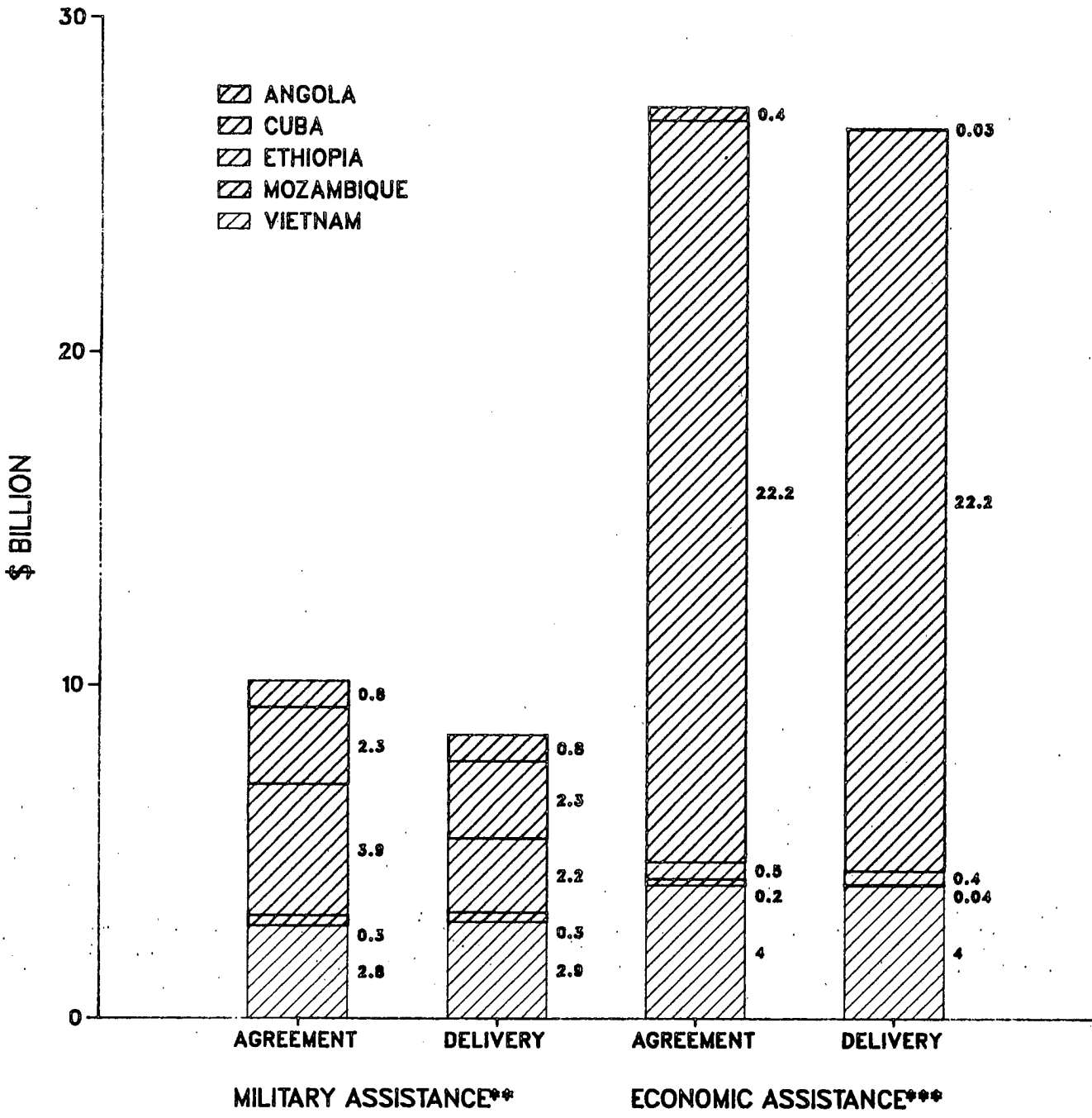
(1) Excludes other Warsaw Pact donors.

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### Soviet Military and Economic Assistance to Selected LDCs, 1975-82\*



\* DOES NOT INCLUDE ASSISTANCE FROM OTHER WARSAW PACT COUNTRIES.  
 \*\* SIXTEEN PERCENT (16%) OF TOTAL SOVIET MILITARY AID COMMITMENTS TO THE THIRD WORLD.  
 \*\*\* SEVENTY-ONE PERCENT (71%) OF TOTAL SOVIET ECONOMIC AID COMMITMENTS TO THE THIRD WORLD.