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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Communist Aid to the Third World

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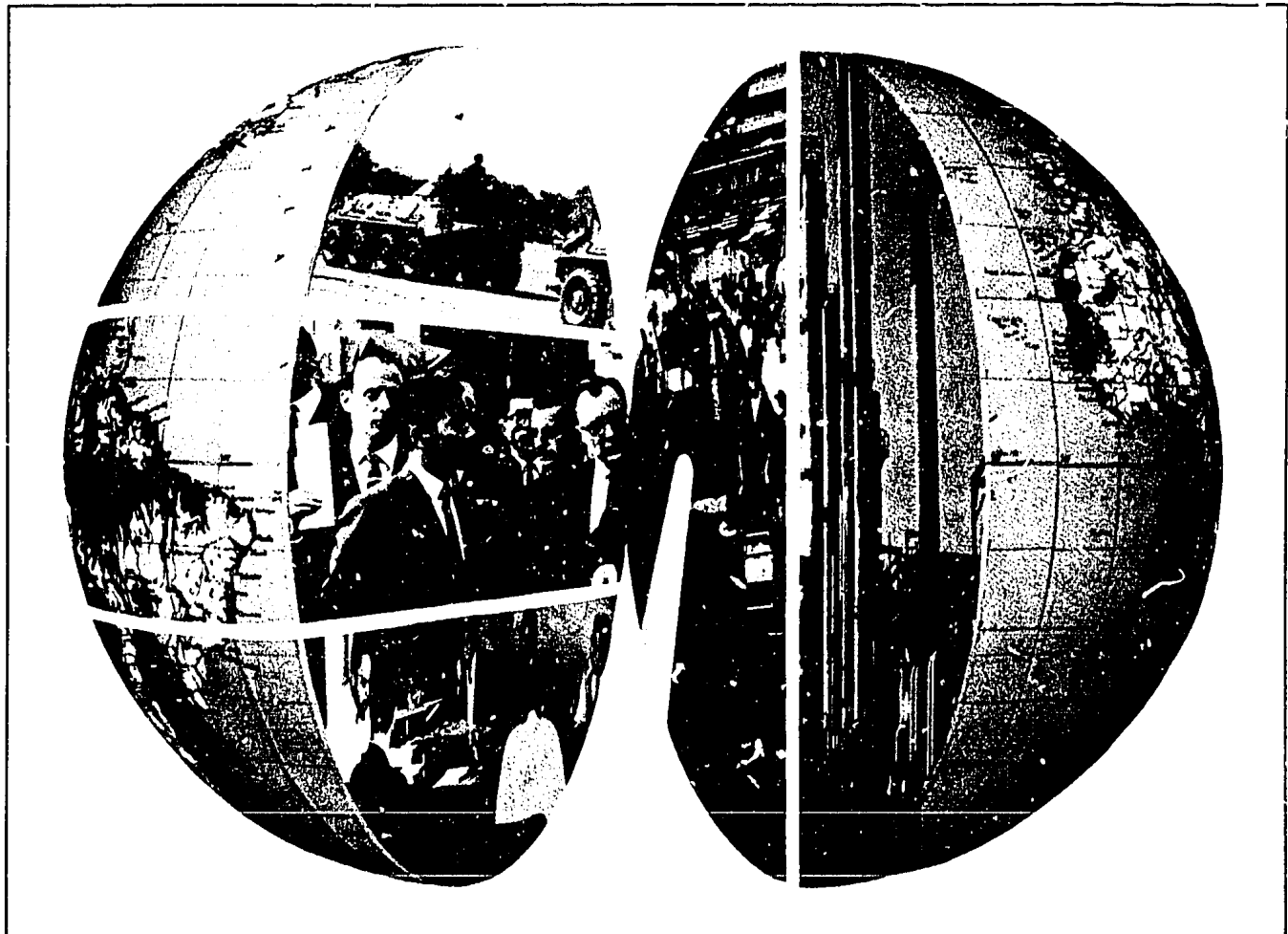
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COMMUNIST AID TO THE THIRD WORLD



Summary

The Communist countries continue to employ foreign aid as a major instrument for expanding their political and commercial interests in the Third World. Nearly \$2.3 billion of new economic and military aid was committed in 1972. Of this figure Moscow contributed nearly \$900 million despite its setback in Egypt. The East European countries, finding increasing commercial reasons for providing new aid, made their largest annual commitments last year. China extended aid to a wide range of recipients, focusing on Africa.

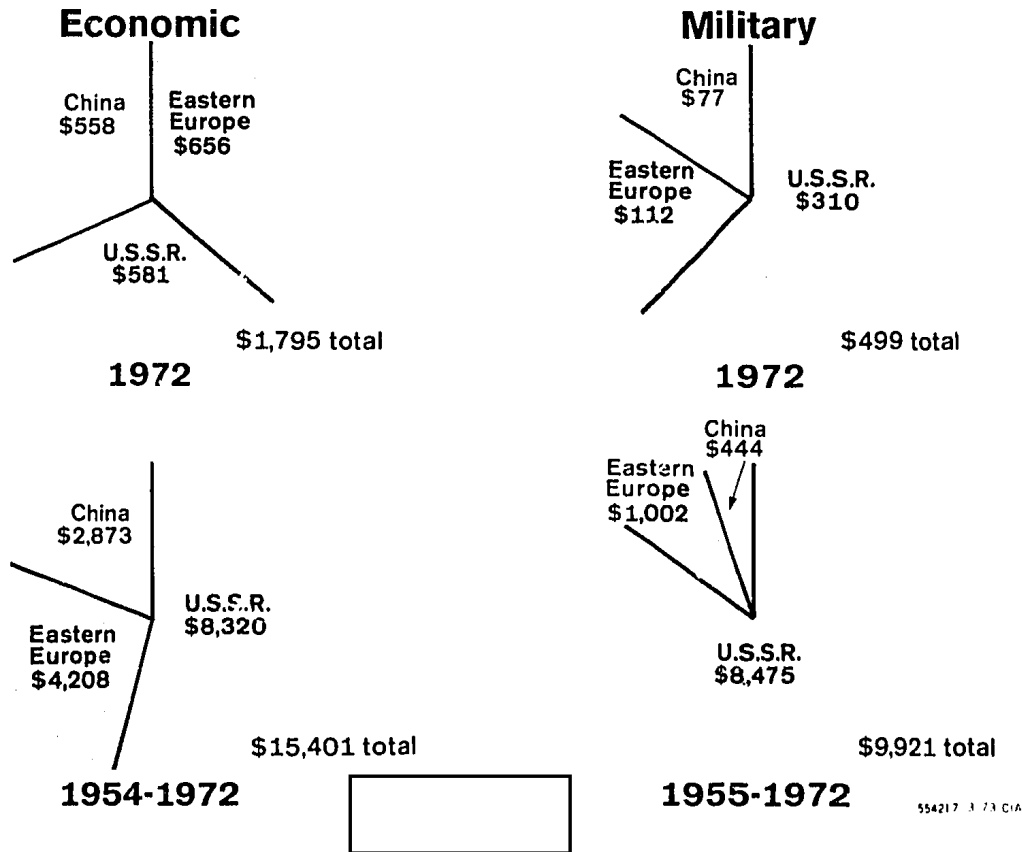
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Although political considerations, at least for Moscow and Peking, are the primary motivation for dispensing aid, economic factors are becoming more significant. Eastern European countries are using aid credits to expand exports of machinery and equipment. Moscow also finds aid recipients useful as markets and as sources of raw materials and consumer goods. Under aid and commercial agreements with less developed countries, the quantities of nationalized oil purchased by the USSR and Eastern Europe have risen sharply. Soviet purchases of products like steel, industrial equipment, and general consumer goods are also increasing. Most of these products are from Soviet-built plants in the developing countries.

Although their experience in Egypt last year will make the Soviets more cautious, they will certainly continue to use aid in 1973 to further their political and economic interests in the Third World. So will the East Europeans and the Chinese. The Middle East and South Asia will be the focal point of most of this activity this year as last.

Communist Economic and Military Aid to Less Developed Countries (million current U.S. dollars)



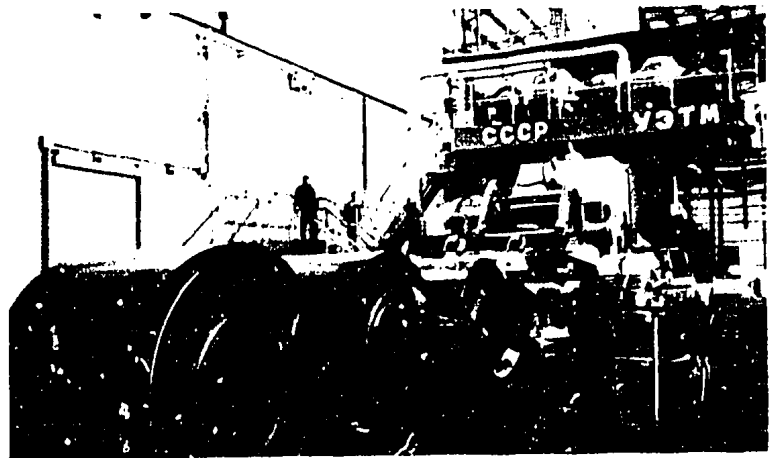
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Soviet-constructed Rolling Mill at Helwan, Egypt



Economic Aid

The Communist countries extended a near-record \$1.8 billion of economic aid to the Third World in 1972, bringing the total committed since 1954 to more than \$15 billion. The Soviet share of \$580 million went to five countries, while the East European countries, chiefly Czechoslovakia, Poland, and Romania, extended about \$655 million to 12 countries. Peking, for the third consecutive year, committed more than half a billion dollars in new credits, nearly 40 percent of which went to Africa. This momentum has carried into 1973 with China allocating about \$100 million in aid to Zaire in January.

More than half of new Communist aid in 1972 went to five countries: Afghanistan, Chile, Iraq, Syria, and Turkey. Chile was the largest recipient, receiving more than \$230 million. Seven countries—Burundi, Dahomey, Guyana, the Malagasy Republic, Malta, Rwanda, and Togo—accepted Communist aid for the first time; all of it came from Peking.

Communist economic aid deliveries in 1972 totaled some \$620 million, down 10 percent from 1971. Drawings against Soviet credits and grants declined about \$70 million to approximately \$310 million, largely as a result of reduced construction activities in Algeria, India, and Turkey. East European deliveries declined as well. Chinese deliveries jumped by approximately one third to \$220 million as work on the Tan-Zam Railway

was accelerated and large commodity shipments were made to Chile and Pakistan.

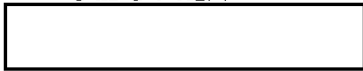
During the past ten years, net Soviet economic aid to the Third World has been narrowed by the rise in repayments and the leveling off of drawings. Drawings exceeded repayments by \$315 million in 1964; the gap had narrowed to \$75 million in 1972. If military aid repayments are added to repayments for economic aid, then the total repayments to the USSR have for some time exceeded Soviet aid deliveries.

Military Aid

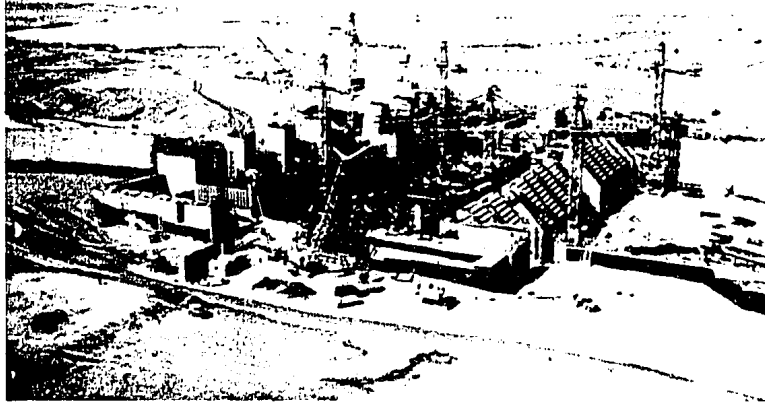
While economic aid commitments have remained high in 1972, new extensions of military aid dropped sharply. Communist countries committed only about \$500 million in military aid last year, down from a high of nearly \$1.3 billion a year in both 1970 and 1971. The record 1970 and 1971 figures were largely a result of commitments to Egypt for its air defenses and to India for its military buildup against Pakistan. The new extensions in 1972 raised to nearly \$10 billion the total amount committed since 1955, 85 percent of which came from the USSR. Of this, an estimated \$8.3 billion has been delivered. Last year, about \$310 million in military aid was committed by the USSR, mainly to Egypt and India, while China committed \$75 million, largely to Pakistan.

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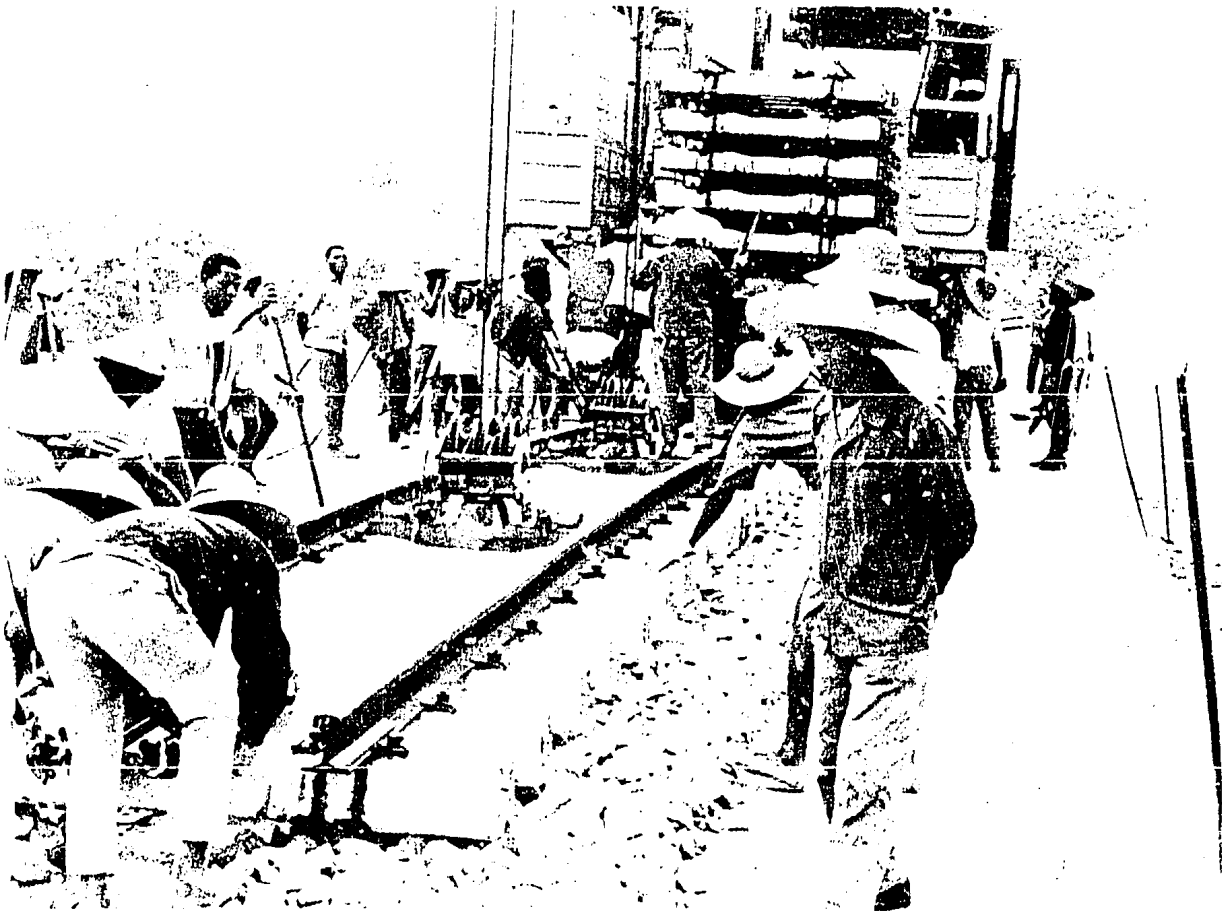


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Soviet-assisted Euphrates Hydroelectric Power Project in Syria

Chinese and Local Workers on the Tan-Zam Railway



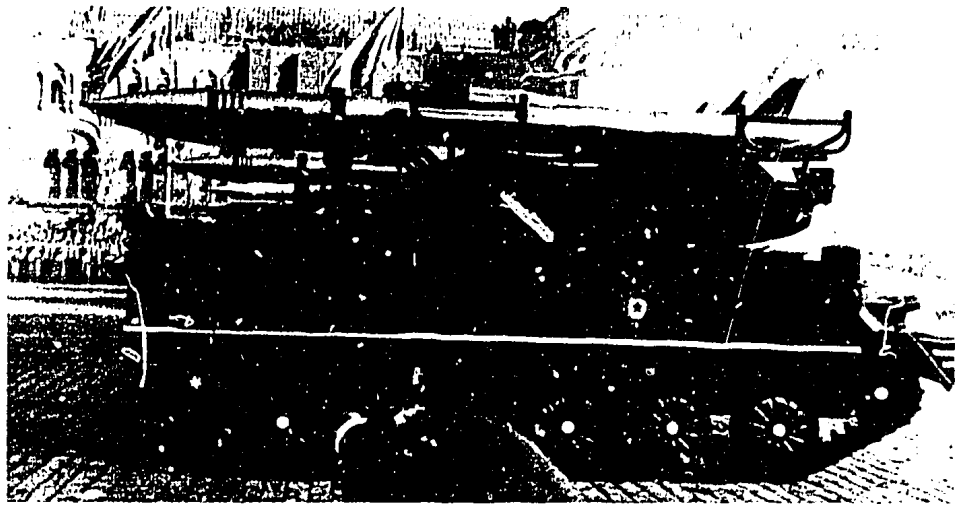
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Soviet SA-6 Surface-to-air
Missile Launcher



Communist military deliveries totaled \$775 million in 1972, 25 percent below the annual average for 1970 and 1971. Moscow provided more than \$650 million in military equipment, including the first shipments to less developed countries of the SA-6 surface-to-air missile (SAM) system, SU-17 (Fitter B) swing-wing fighter-bombers, and T-62 medium tanks. Some of the major recipients received their first SA-3 SAM systems, OSA-class guided-missile patrol boats, and ZSU-23-4 self-propelled antiaircraft guns.

Middle East and South Asia

Middle Eastern and South Asian nations continued to be the prime beneficiaries of the Communist aid; they got nearly 60 percent of the economic and almost all of the military commitments in 1972. Moscow channeled almost 85 percent of its new aid to the two areas. More than half of all Soviet aid deliveries went to the Middle East.

In July 1972, President Sadat, at least in part because of dissatisfaction with the nature of Soviet military commitment to Egypt, ousted most of the Soviet military personnel from his country. An estimated 13,000 advisers, technicians, and personnel assigned to Soviet operational units in Egypt departed, leaving only a few

hundred technicians to work with the armed forces. Even so, Egypt still received about \$150 million in new military commitments, including an estimated \$80 million of arms turned over by departing Soviet forces. This setback produced no perceptible impact on Soviet economic aid activities in Egypt. Work moved ahead briskly on major projects, like the Helwan steel mill and the Naj Hamadi aluminum plant, and discussions were held on possible new aid for Egypt's new five-year plan.

In Syria and Iraq, Communist, and especially Soviet, influence grew as Moscow moved to offset its losses in Egypt. Moscow provided Syria with about \$85 million for various petroleum, transportation, and agricultural projects, for accelerated construction on existing railroad projects, and the development of the Euphrates Valley. The Soviets also extended more than \$60 million of new military aid to Damascus and delivered an estimated \$125 million of arms under past commitments, the largest annual deliveries ever made to Syria. In addition, Romania and China gave Syria \$93 million and \$45 million respectively, in new economic aid. Iraq signed a friendship treaty with Moscow, obtained some \$200 million of East European economic aid, and signed an \$80-million agreement with Czechoslovakia. Baghdad also applied for observer status with the

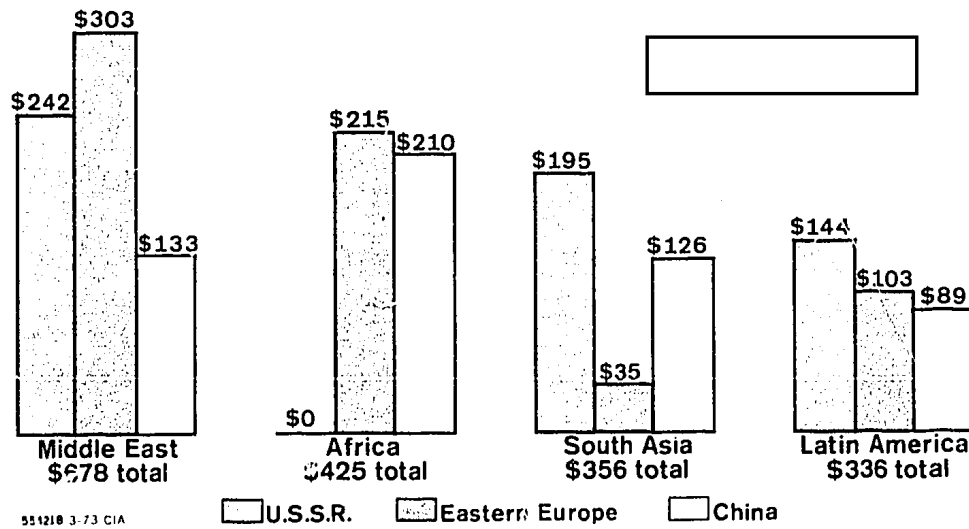
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Soviet-assisted Fanole Dam and Irrigation Project in Somalia.

Geographic Distribution of Communist Economic Aid in 1972 (million current U.S. dollars)

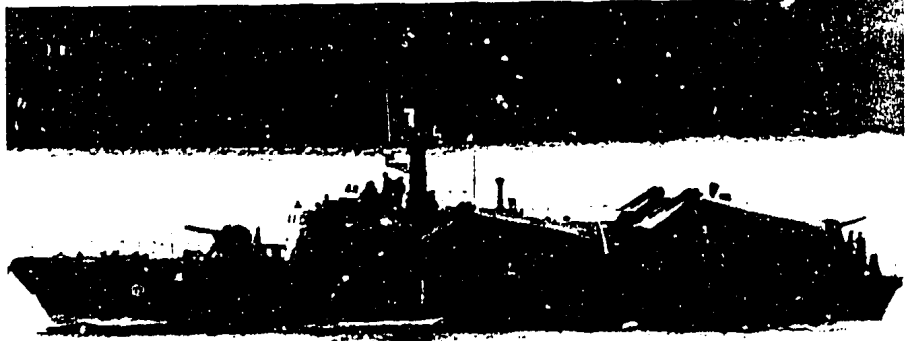


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Soviet OSA-class Guided-Missile
Patrol Boat

Council for Mutual Economic Assistance (CEMA) and agreed to repay most of its aid debts in crude oil.

A Soviet credit of \$158 million to Turkey to expand the Iskenderun steel mill raised Soviet allocations for the project to about \$420 million, making it the costliest single Communist aid undertaking in the Third World. Peking provided Yemen (Aden) and Yemen (Sana) with economic credits of about \$22 million each.

Moscow continued to dominate foreign aid activity in Afghanistan with a \$121-million economic credit that represents about 35 percent of planned investment in Kabul's fourth five-year development plan. Soviet aid outlays accounted for nearly half of total investment during the first three plans. Peking also extended \$45 million of new economic aid to Kabul.

Most European Communist countries moved rapidly to establish diplomatic and economic ties with Bangladesh soon after that country gained its independence. Nearly \$100 million of new aid was made available, and about \$60 million of unused aid originally committed to East Pakistan was reallocated. The Soviets extended about \$75 million, resumed work on projects begun prior to independence, and agreed to provide Dacca with a squadron of MIG jet aircraft. The Soviets undertook to clear the country's harbors of the wreckage of the 1971 war.

Strains in Soviet-Indian economic relations developed over Moscow's unwillingness to reallocate idle industrial development credits to other uses. The major projects are nearing completion, and while drawings have declined, aid repayments have risen rapidly creating a resource outflow in favor of the USSR. Moscow did, however, agree to provide India with an additional \$100 million of arms. China, on the other hand, committed \$65 million in new arms to Pakistan and delivered an equal amount in 1972.

Africa

Africa is the focal point of Chinese aid activities. Peking channeled about \$210 million of its 1972 commitments to seven African countries. East European countries provided about \$215 million to African nations, about \$150 million of which went to Algeria and \$50 million to Zambia. The USSR did not extend new aid to Africa for the first time since the inception of its African aid program in 1959. It did, however, agree to build Somalia's largest project, the Fanole Dam on the Giuba River, and stepped up work on Guinea's Kindia bauxite complex.

Communist aid activities in Africa are highlighted by the construction of the Tan-Zam Railroad, which is approximately one year ahead of schedule. Last year, an estimated \$110 million of Chinese aid funds were expended, and 16,500 Chinese technicians were employed in Tanzania and Zambia on the project. This one undertaking

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employs about three fourths of all Chinese economic technicians in the developing countries and more than 40 percent of all Communist technical personnel in the Third World.

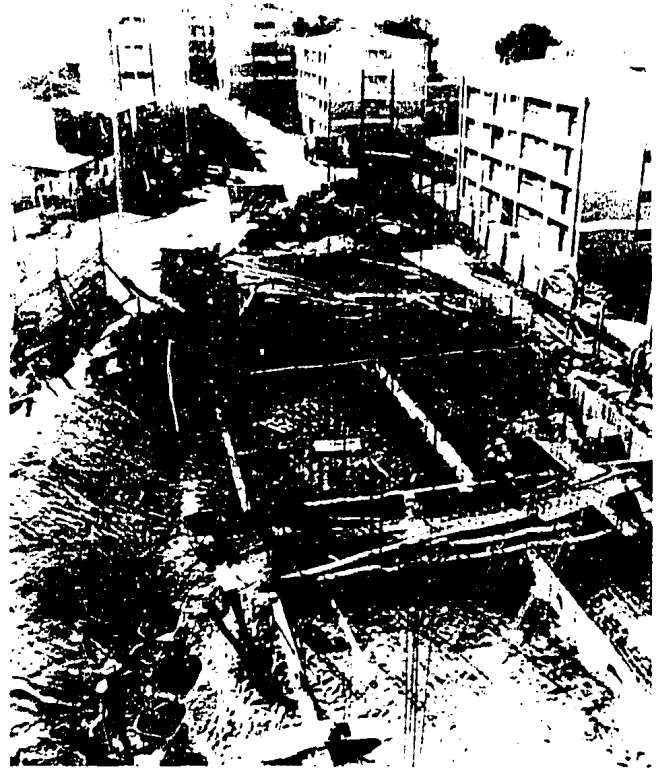
Although Libya has not received Communist financial aid, it has obtained substantial technical assistance. The largest contingent of East Europeans (1,150) engaged in aid projects abroad are in Libya building various port, road, housing, and light industrial projects and working as advisers under individual contracts. The number of Soviets in Libya is still small, but the two countries have signed an agreement for the USSR to undertake oil prospecting, extraction, and refining projects; mineral and gas surveys; and energy resource development. Libya has also contracted to provide the USSR, Bulgaria, and Romania with sizable quantities of nationalized oil. In addition, Moscow has agreed to build two petroleum distillation plants and to study the feasibility of integrating the Libyan and Egyptian power grids.

Latin America

Communist economic relations with Latin America expanded further in 1972 as more than \$335 million of economic aid was channeled to the area. Chile, under Allende, turned more and more to the Communist countries for help in stemming the rapid deterioration of its economy. Santiago received \$230 million of aid commitments, far less than it needed and sought. In particular, there was little Communist help for Chile's balance of payments difficulties. Moreover, while Moscow extended about \$145 million of long-term aid and a short-term revolving credit of \$50 million, it made it clear to Santiago that the Soviet Union had neither the resources nor the inclination to underwrite the Chilean economy. Hungary and Poland provided \$78 million in credits to Peru, and Guyana received its first Communist aid, a \$26-million Chinese credit.

Outlook

Communist countries will continue to employ foreign aid as a major instrument for furthering their political and economic interests



East German Housing in Chile

in the less developed countries. Opportunities and requests for economic aid will almost certainly increase for all major Communist aid donors. Soviet military commitments probably will rise in 1973 because of the abnormally low level of 1972, and will no doubt be concentrated once again in the Middle East and South Asia.

Moscow probably will also concentrate new economic aid commitments in the Middle East and South Asia as opportunities open up for participation in development plans of major aid recipients. In Africa, Moscow may step up its aid activities in areas of special Soviet interest like Somalia and Sudan. Eastern Europe probably will expand trade and credit ties throughout the Third World. China will pursue its aid programs and trade activities in most areas, but its focus will remain on Africa.