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# Intelligence Report

*The New Chinese Aid Offensive, 1970-75*

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A NEW CHINESE AID OFFENSIVE, 1970-75

## SUMMARY

Peking's economic aid program, since its inception, has been designed to widen China's political influence in the Third World and to counter Soviet influence. In 1970, Peking shifted from radical ideological criteria that supported only leftist regimes to a broader supporting role among all developed countries with less attention to political coloration.

Peking assumed a role as spokesman for LDC grievances. Its willingness to render assistance despite its considerable domestic needs helped it win a UN seat in 1971. Since then, China has particularly sought to burnish its image vis a vis Moscow among poorer LDCs.

Chinese political gains often loom large when compared with the modest amounts spent on aid. Annual disbursements since 1970 have averaged less than \$200 million, an amount approximating outlays by small Western donors such as Belgium and half that spent by the USSR. The high political impact of China's small program stems from:

- A heavy concentration in Africa, where Chinese labor-intensive projects and the level of Chinese technical skills are most relevant to development needs.
- An outstanding performance in building the Tan-Zam Railroad, which no other donor would finance, China's showcase project in the Third World.
- The high discounted value of the aid to the recipient, which includes interest-free loans with long amortization periods and repayments in local currency.

Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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Its position in Africa assured, China has again begun to focus attention on its Asian neighbors. Aid to countries on China's southern periphery is in part designed to prevent Moscow from replacing the United States as the dominant influence in the area. China recently has increased support to Burma, Cambodia, and Laos. Peking also has signed its first formal economic agreements with Malaysia, Thailand, and the Philippines. Aid disbursements, nonetheless, are likely to be slightly below the level of recent years because of the completion of the Tan-Zam Railroad.

Chinese military aid also has expanded sharply since 1970, yet continues to be a narrowly focused effort. More than 85% of China's \$300 million in military aid since the beginning of 1970 has been concentrated in Pakistan and Tanzania.

## DISCUSSION

### Shift in China's Aid Policy

1. The Chinese aid program was small from its inception in 1956 through the 1960s. Because of Peking's decision to support dissident groups, many African governments refused Chinese economic assistance, and two major Asian clients -- Burma and Indonesia -- broke relations with Peking. These setbacks were followed by the Cultural Revolution, which brought foreign policy initiatives to a standstill and four years of virtual isolation.

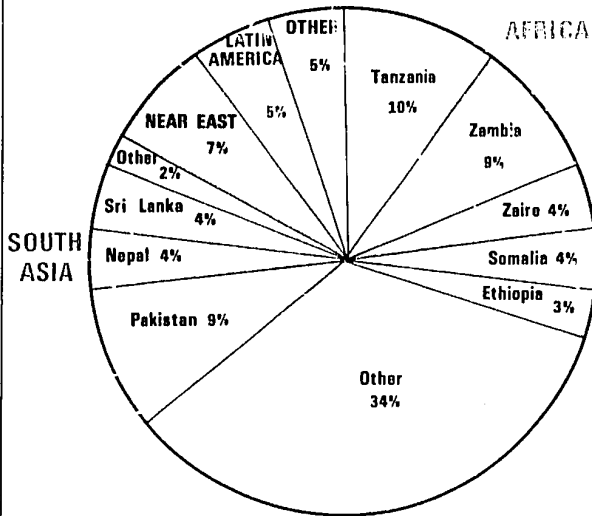
2. In 1970, Chinese economic relations with the LDCs changed radically. Peking pledged more than \$700 million in economic aid to LDCs-- a record annual commitment, almost 10 times larger than its average aid undertakings in previous years (see Figure 1). Subsequently, the list of aid recipients has grown sharply. Current Chinese aid policy stresses good state-to-state relations and conscious effort to avoid political strings. Peking pledged \$2.8 billion of aid to LDCs during 1970-75, compared with \$1 billion for 1956-69 (see Figure 2 and Table 1).

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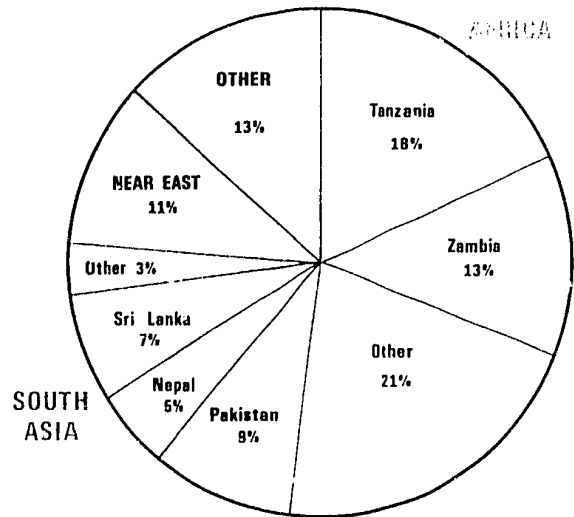
**Aid Activities**

(1970-October 1975)

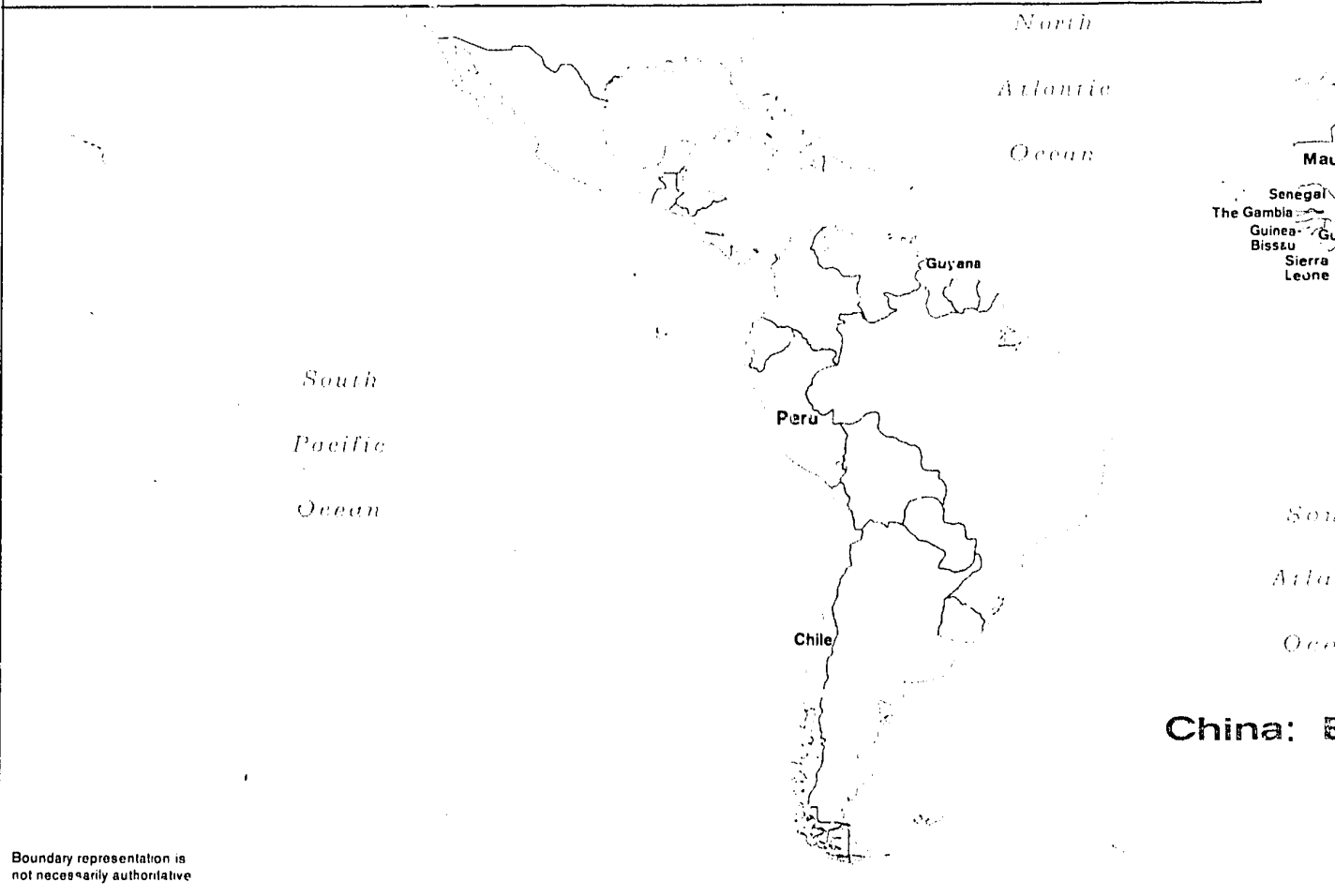
**Extended**



**Drawn\***

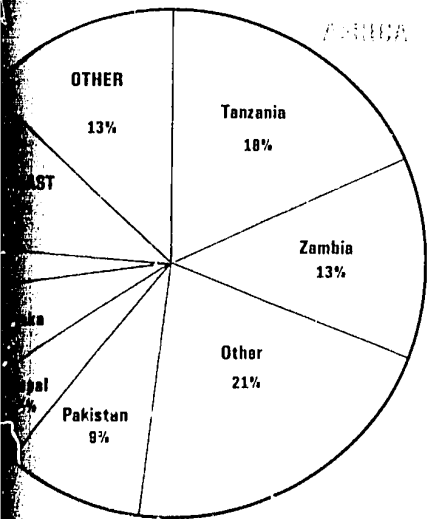


\*Includes drawings prior to 1970

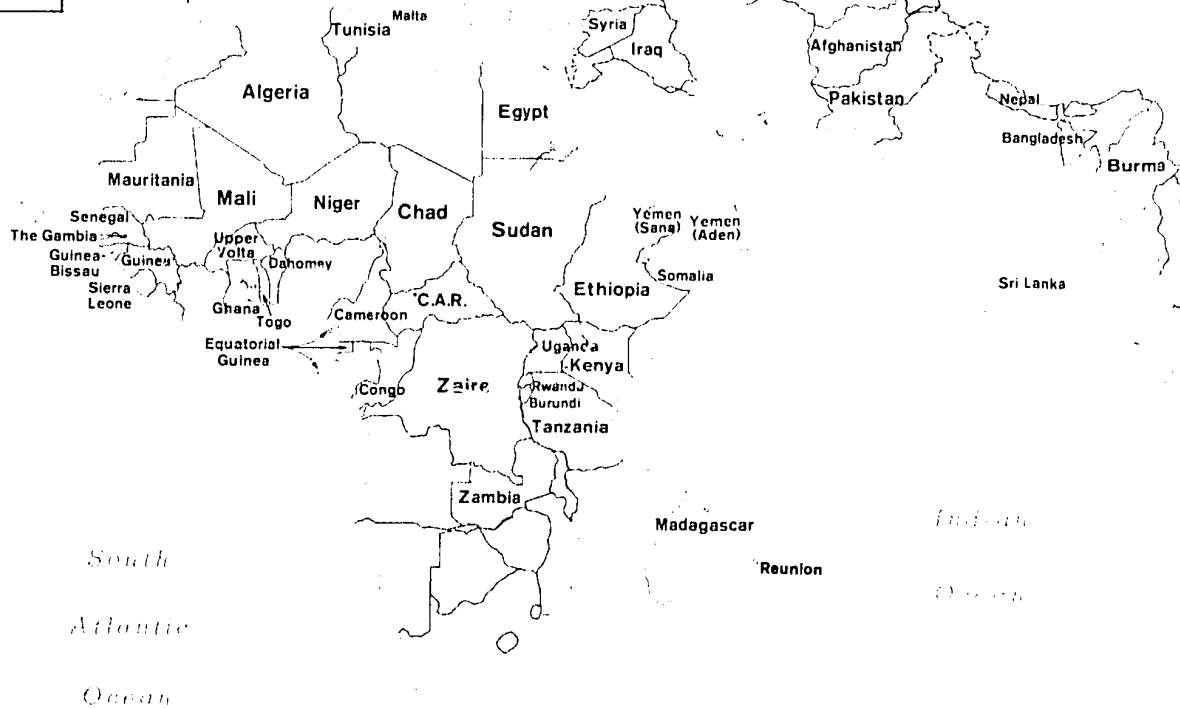


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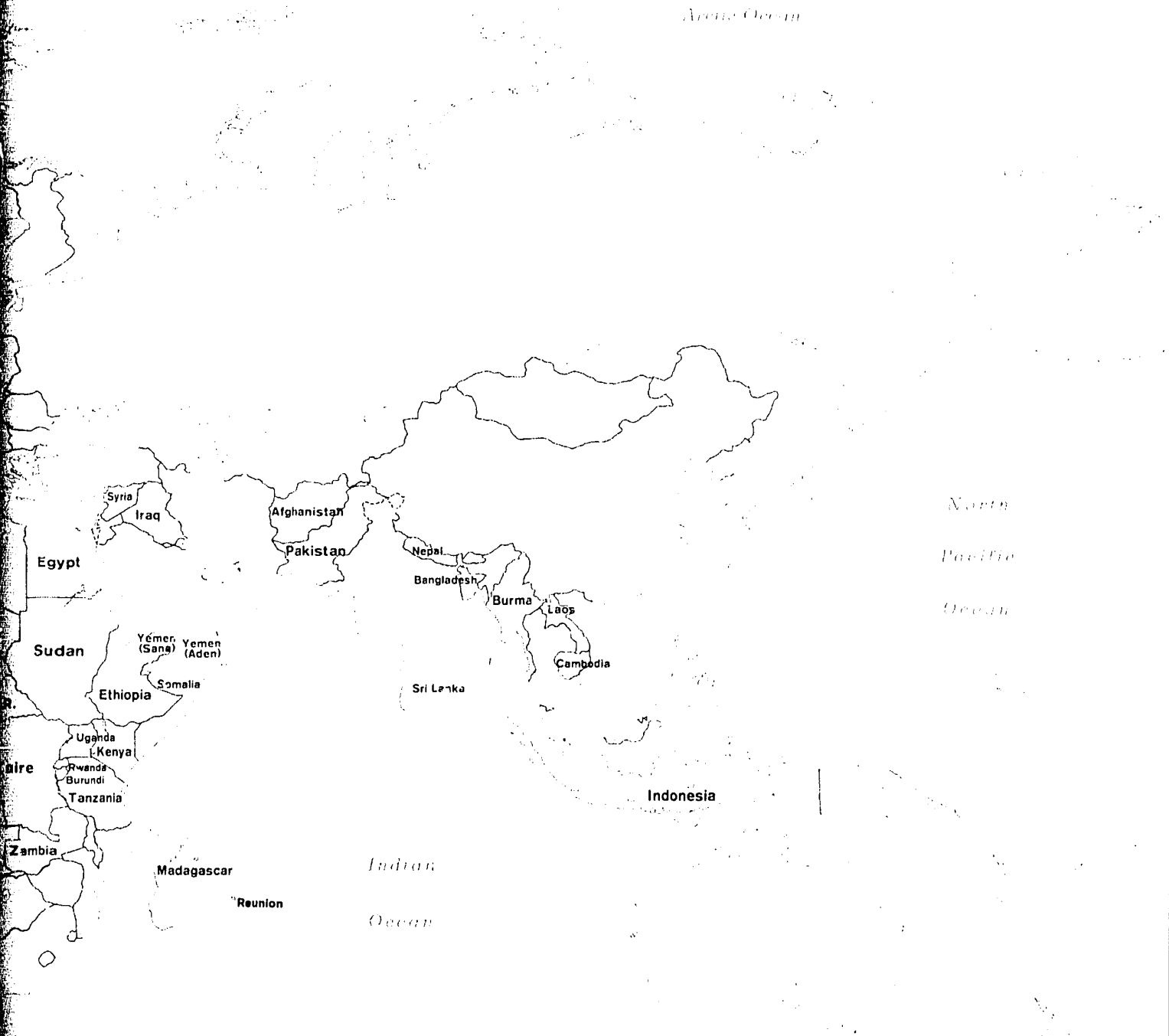
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\*Includes drawings prior to 1970



### China: Economic Aid to Less Developed Countries (1956-



Less Developed Countries (1956-75)



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### China: Economic Aid Extended to Less Developed Countries

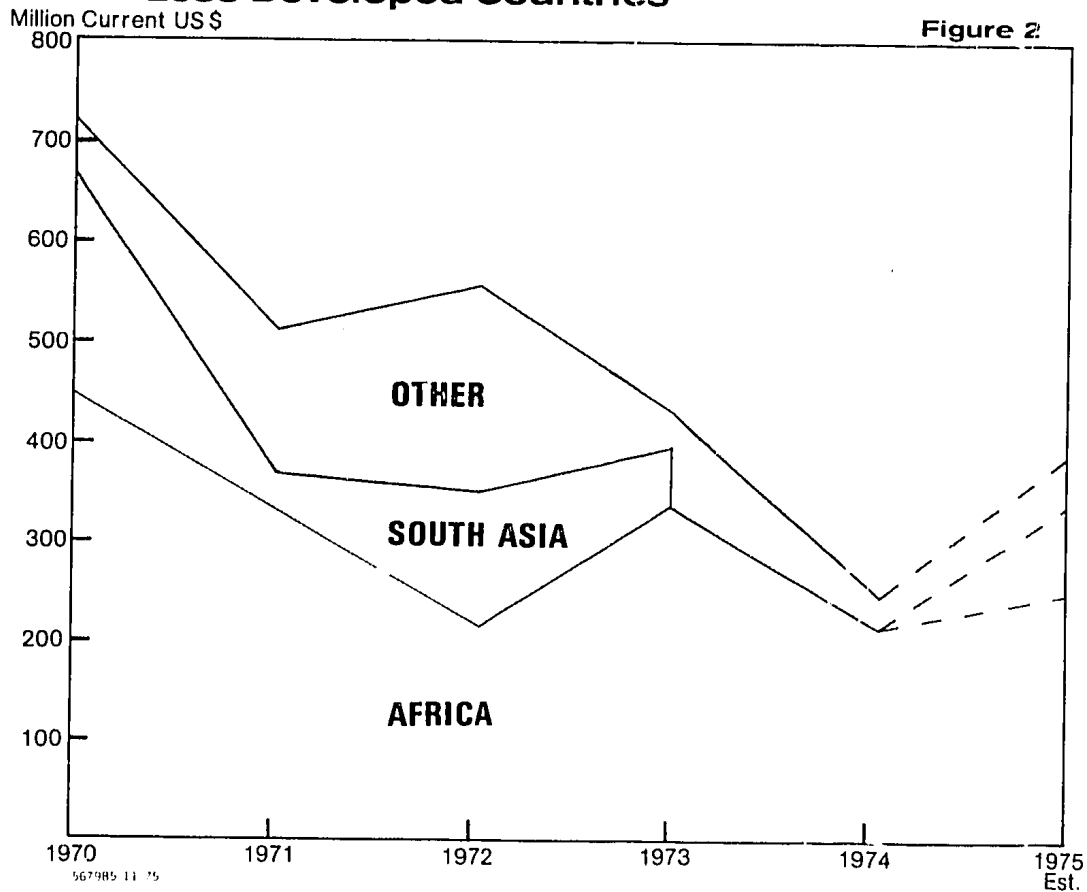


Table 1

### China: Economic Credits and Grants to LDCs, Extended and Drawn<sup>1</sup>

Million Current US \$

|                          | Extended     |                      | Total <sup>2</sup> | Drawn        |
|--------------------------|--------------|----------------------|--------------------|--------------|
|                          | 1956-69      | 1970-75 <sup>2</sup> |                    | 1956-74      |
| <b>Total</b>             | <u>1,020</u> | <u>2,772</u>         | <u>3,792</u>       | <u>1,415</u> |
| Africa                   | 376          | 1,768                | 2,144              | 736          |
| Algeria                  | 52           | 40                   | 92                 | 44           |
| Burundi                  | ....         | 20                   | 20                 | ....         |
| Cameroon                 | ....         | 71                   | 71                 | ....         |
| Central African Republic | 4            | ....                 | 4                  | 4            |
| Chad                     | ....         | 50                   | 50                 | 2            |
| Congo                    | 25           | 20                   | 45                 | 33           |
| Dahomey                  | ....         | 44                   | 44                 | ....         |
| Equatorial Guinea        | ....         | 24                   | 24                 | ....         |

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Table 1  
 China: Economic Credits and Grants to LDCs,  
 Extended and Drawn<sup>1</sup>  
 (Continued)

|                    | Million Current US \$ |                                  |                    |                  |
|--------------------|-----------------------|----------------------------------|--------------------|------------------|
|                    | 1956-69               | Extended<br>1970-75 <sup>2</sup> | Total <sup>2</sup> | Drawn<br>1956-74 |
| Africa (continued) |                       |                                  |                    |                  |
| Ethiopia           | ....                  | 84                               | 84                 | 2                |
| Gabon              | ....                  | 25                               | 25                 | ....             |
| Gambia             | ....                  | 16                               | 16                 | ....             |
| Ghana              | 42                    | ....                             | 42                 | 5                |
| Guinea             | 66                    | 11                               | 77                 | 67               |
| Guinea Bissau      | ....                  | 16                               | 16                 | ....             |
| Kenya              | 18                    | ....                             | 18                 | 3                |
| Malagasy Republic  | ....                  | 66                               | 66                 | 4                |
| Mali               | 55                    | 4                                | 59                 | 50               |
| Mauritania         | 5                     | 59                               | 64                 | 9                |
| Mauritius          | ....                  | 35                               | 35                 | ....             |
| Mozambique         | ....                  | 59                               | 59                 | ....             |
| Niger              | ....                  | 51                               | 51                 | 1                |
| Rwanda             | ....                  | 22                               | 22                 | 2                |
| Senegal            | ....                  | 49                               | 49                 | 2                |
| Sierra Leone       | ....                  | 40                               | 40                 | 4                |
| Somalia            | 22                    | 112                              | 134                | 43               |
| Sudan              | ....                  | 82                               | 82                 | 15               |
| Tanzania           | 54                    | 277                              | 331                | 251              |
| Togo               | ....                  | 46                               | 46                 | 1                |
| Tunisia            | ....                  | 40                               | 40                 | ....             |
| Uganda             | 15                    | ....                             | 15                 | 5                |
| Upper Volta        | ....                  | 43                               | 43                 | 3                |
| Zaire              | ....                  | 100                              | 100                | Negl.            |
| Zambia             | 18                    | 262                              | 280                | 186              |
| East Asia          | 166                   | 107                              | 273                | 162              |
| Burma              | 27                    | 57                               | 84                 | 46               |
| Cambodia           | 92                    | ....                             | 92                 | 69               |
| Indonesia          | 47                    | ....                             | 47                 | 47               |
| Laos               | ....                  | 26                               | 26                 | ....             |
| Philippines        | ....                  | 24                               | 24                 | ....             |
| Europe             | ....                  | 45                               | 45                 | 6                |
| Malta              | ....                  | 45                               | 45                 | 6                |

Table 1

## China: Economic Credits and Grants to LDCs.

Extended and Drawn<sup>1</sup>  
(Continued)

Million Current US \$

|               | Extended |                      |                    | Drawn   |
|---------------|----------|----------------------|--------------------|---------|
|               | 1956-69  | 1970-75 <sup>2</sup> | Total <sup>2</sup> | 1956-74 |
| Latin America | ....     | 143                  | 143                | 20      |
| Chile         | ....     | 65                   | 65                 | 17      |
| Guyana        | ....     | 36                   | 36                 | 1       |
| Peru          | ....     | 42                   | 42                 | 2       |
| Middle East   | 191      | 183                  | 374                | 152     |
| Egypt         | 106      | 28                   | 134                | 66      |
| Iraq          | ....     | 45                   | 45                 | ....    |
| North Yemen   | 57       | 22                   | 79                 | 54      |
| South Yemen   | 12       | 43                   | 55                 | 12      |
| Syria         | 16       | 45                   | 61                 | 20      |
| South Asia    | 287      | 526                  | 813                | 339     |
| Afghanistan   | 28       | 45                   | 73                 | 27      |
| Bangladesh    | 11       | ....                 | 11                 | 11      |
| Nepal         | 66       | 117                  | 183                | 67      |
| Pakistan      | 141      | 250                  | 391                | 134     |
| Sri Lanka     | 41       | 114                  | 155                | 100     |

1. Excluding an estimated \$1 billion of services provided at no cost to LDCs.

2. Through 31 October 1975.

Concentration of Aid Effort

3. Chinese economic assistance is basically an African-centered program. Almost 65% of pledges since 1969 have gone to Africa. A \$400 million credit for the Tan-Zam Railroad gave Tanzania and Zambia first and second rank among Chinese clients after 1969. Pakistan, the third largest aid recipient, together with Sri Lanka and Nepal, dominates South Asia receipts — 19% of total Chinese aid. The Middle East, never an important claimant, received around 7%. China began a small aid effort in Latin America in

1971. Since then, Peking has signed almost \$145 million in agreements with Chile, Guyana, and Peru, but little has been done to implement agreements.

#### Economic Aid: A Pragmatic Program

4. Chinese economic assistance has carved a niche in the global aid scheme. Deliveries under this program have averaged about \$165 million annually over the past five years, comparing with the aid efforts of smaller Western donors such as Belgium and the Netherlands. Despite the moderate sums pledged, China's aid has been highly visible and has had considerable impact — again particularly in Africa. The image of Chinese support to Africa is one that few major powers are effectively challenging. Focus on countries where China's skills and technology are applicable combined with a carefully supported, balanced aid package and an understanding of the problems and psychology of its "brothers" in the Third World has contributed to Peking's stature in the LDCs.

5. China has emphasized project assistance that provides easily perceived development benefits in a short time. Profiting from its own postwar experiences, China has emphasized unsophisticated, labor-intensive projects. Light industrial plants — such as textile, plywood, and paper and food processing — are built at low cost and are put into production rapidly. Most of these plants require minimum skills for operation. Only 5% of China's aid has been allocated to heavy industry, all in Pakistan. This contrasts with the 65%-70% of Soviet aid allocated to heavy industrial projects.

6. The most ambitious aid project — the Tan-Zam Railroad — has been particularly impressive. This railroad is one of the finest examples of railroad design and construction available in the LDCs today. The 1,150-mile line, begun in 1970, was completed in mid-1975, a year ahead of schedule. Drawdowns averaged almost \$100 million a year and covered both direct aid and help for local expenditures. At the peak of construction, 16,000 Chinese

workers were employed, and sales of consumer goods, supplemented by hard currency, covered local expenditures.

7. China copes with shortages of local funds and skills that often plague other foreign aid donors by supplying these needs as part of its assistance package. China provides the administrators, skilled personnel, and often large numbers of unskilled laborers to carry out the construction. In 1974, 23,000 Chinese were working on aid projects abroad. We estimated that in Africa one technician is present for every \$5,000 to \$6,000 of Chinese project aid expended, compared with the Soviet practice of sending one technician for each \$70,000 disbursed.

8. Peking's aid terms are far more attractive to the borrower than those of any other Communist donor. Grants, which have averaged about \$40 million annually since 1969, account for about 15% of its total aid extended since the beginning of the program. This compares with less than 2% in other Communist programs. China also has provided the equivalent of about \$1 billion of grants<sup>1</sup> in the form of free technical services to development projects. Its credits are all interest-free, and in recent years repayment periods often have been longer than the 10 years typical before 1970. Grace periods ranging up to 20 or 30 years are frequently allowed. For example, the Tan-Zam Railroad credit allows 30 years for repayment beginning in 1983. Chinese aid thus has been especially attractive to the poorer LDCs. China also accepts local goods in repayment, making its aid particularly attractive to the poorer LDCs. At present, because of long grace periods still in effect, only small repayments have been made.

### Military Aid

9. China's military aid is a low-key program, which has not seriously challenged Soviet dominance among Communist arms suppliers, even in Black Africa. The aid has been almost entirely grants, and few Chinese

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1. The value of these services is not included in estimates of China's aid undertakings.

military personnel have been attached to the programs. The aid extended now totals \$555 million, of which more than one-half has been provided since the beginning of 1970 (see Tables 2 and 3).

Table 2  
China: Military Aid Extended to Less Developed Countries  
1958-75<sup>1</sup>

|                   |            | Million US \$   |       |
|-------------------|------------|-----------------|-------|
| Total             | <u>555</u> | East Asia       |       |
| Africa            |            | Cambodia        | 15    |
| Algeria           | 10         | Indonesia       | 20    |
| Burundi           | 5          | Middle East and |       |
| Congo             |            | South Asia      |       |
| Equatorial Guinea | Negl.      | Iraq            | Negl. |
| Guinea            | 5          | Nepal           | Negl. |
| Mali              | Negl.      | Pakistan        | 405   |
| Sierra Leone      | 5          | Sri Lanka       | 5     |
| Sudan             | 10         | Syria           | 5     |
| Tanzania          | 60         |                 |       |
| Uganda            | Negl.      |                 |       |
| Zaire             | 5          |                 |       |
| Zambia            | Negl.      |                 |       |

1. Through 31 October 1975.

10. Almost three-fourths of China's total military aid has gone to Pakistan. Initial shipments were made available at the onset of the 1965 Pakistani-Indian war, when no other country was willing to supply Pakistan with military goods. Chinese equipment accounts for about half of Pakistan's air and ground force inventories; it includes MIG jet fighters, IL-28 jet light bombers, light and medium tanks, and a variety of ground forces, communication, and support equipment. Pakistan also has recently received Shanghai-class gunboats and hydrofoils from China for the first time.

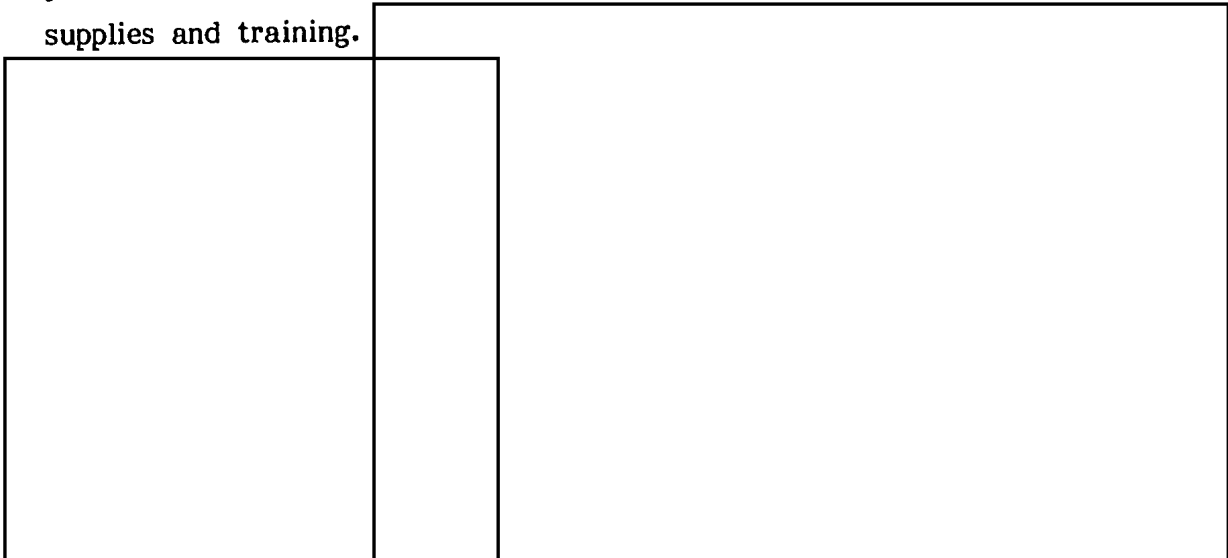
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Table 3  
China: Military Aid to Less Developed Countries

|                   | Million US \$ |            |
|-------------------|---------------|------------|
|                   | Extended      | Drawn      |
| Total             | <u>555</u>    | <u>460</u> |
| 1958-63           | 35            | 35         |
| 1964              | 5             | 5          |
| 1965              | 80            | 15         |
| 1966              | 50            | 75         |
| 1967              | 55            | 25         |
| 1968              | 25            | 30         |
| 1969              | 5             | 25         |
| 1970              | 65            | 25         |
| 1971              | 75            | 65         |
| 1972              | 80            | 75         |
| 1973              | 15            | 70         |
| 1974 <sup>1</sup> | 65            | 15         |
| 1975              | ...           | N.A.       |

1. Through 31 October 1975.

11. The other major recipient of Peking's military aid is Tanzania, which has received \$60 million in aid, all of it delivered. During the past 5 years, Tanzania has been almost completely dependent on China for military supplies and training.



13. LDCs have been willing to accept Chinese military aid despite the small amounts, its limited range, and its unsophisticated character. Few

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Chinese military personnel have been attached to the programs; in 1974 there were only 1,000, with about 750 in Tanzania alone. Except for Pakistan and Tanzania, Chinese military assistance has had little effect on recipients' military establishments.

### Projects

14. We do not foresee any major shifts in the character or direction of the Chinese aid program over the next few years. Sub-Saharan Africa will continue to receive most of Peking's foreign assistance. We do not expect any major new initiatives.

15. Total Chinese disbursements will probably fall somewhat despite the \$2.4 billion of economic aid now in the pipeline. The Tan-Zam Railroad has just been completed, and no other large-scale Chinese projects are on the horizon.

16. Peking is likely to place greater emphasis on improving economic relations with Southeast Asia to match the region's changing political realities. China has recently instituted commercial contracts with several Free World Asian neighbors and probably would move quickly to exploit opportunities to establish an aid presence.