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DATE 6/11/86 FILE

Central Intelligence Agency

DOC NO GIM 86-20142



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MEMORANDUM FOR: See Distribution

FROM: [redacted] Chief,
International Security Issues Division
Office of Global Issues

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SUBJECT: Soviet Arms Licensing to the Third World [redacted]

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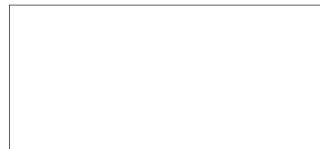
1. The attached memorandum assesses the outlook for Soviet licensing of arms coproduction to the Third World. Moscow's traditional policy of seldom granting coproduction is likely to erode in the next five years because the Soviets will be forced to respond to Western competition or risk erosion of their dominance in key arms markets. [redacted]

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2. Your comments and suggestions are welcome and may be addressed to [redacted] Arms Transfers Branch [redacted]

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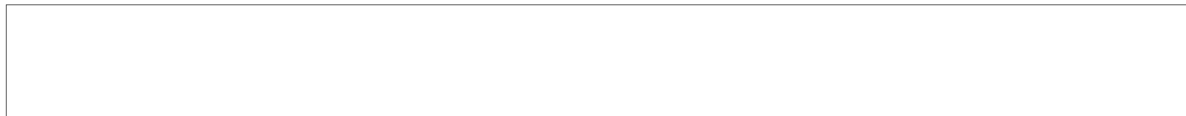
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Attachment:

Soviet Arms Licensing to the Third World [redacted]
GIM 86-20142/86, 9 Jun 1986, [redacted]

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SUBJECT: Soviet Arms Licensing to the Third World [] 25X1

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Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

10 June 1986

Summary

The USSR's traditional policy of seldom granting its Third World customers licenses to coproduce arms probably will erode during the next five years as more of these countries establish or expand defense industries, and Moscow is forced to respond to aggressive Western efforts to penetrate its markets. We believe Soviet policymakers have resisted licensing in the past out of concern that it might reduce clients' dependence on Moscow and compromise arms technology. As Soviet licensing expands, we believe Moscow's concerns will be proven right, with positive implications for the United States. Moreover, we believe the USSR's slowness in granting coproduction and the poor quality of Soviet production technology will irritate Moscow's clients and create further opportunities to loosen their ties to the Soviets. [redacted]

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This memorandum was prepared by [redacted] Office of Global Issues. Information available as of 10 June 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Arms Transfers Branch, International Security Issues Division, OGI, [redacted]

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The Limited Scope of Soviet Licensing

The USSR has licensed few arms for production in the Third World, although an increasing number of these countries are seeking to build arms industries through licensing:

- India is the only country that coproduces major Soviet weapons on a large scale. New Delhi began producing Soviet arms in 1962 and currently holds licenses for the MIG-21bis and MIG-27 fighters, the BMP-2 armored personnel carrier, the T-72 tank, and much of their related armament, munitions and support equipment.

[Redacted]

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- Egypt was a distant second to India in receiving Soviet arms licenses prior to Sadat's decision to sever arms ties with Moscow. In the early 1970s, Cairo began producing a range of arms, including artillery, SA-7 missiles, AK rifles, anti-tank guns, and RPG-7 rocket launchers, [Redacted] and still produces these arms, although probably not with Soviet approval or assistance.

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- Moscow built one small ammunition plant for Iraq in the 1950s and probably has offered Baghdad new licenses for small arms and ammunition.

[Redacted] although some reports indicate the Soviets provide technical support to a few Iraqi arms factories.

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- The Soviets may also have offered small arms factories to Libya, [Redacted] one factory is operating, but it is unclear who built it or what it produces. [Redacted] (See table one)

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Incentives to produce arms indigenously include skyrocketing weapons prices, a desire for increased industrial capability, national pride, desire for independent and secure sources of arms, and hope for increased export earnings and reduced foreign exchange costs. Initial efforts are usually limited to assembly of imported components, with plans to proceed to indigenous production from raw materials. Small arms and ammunition usually are produced under license first, and many Third World countries then try to proceed to production of larger equipment, again starting with assembly. Most Third World states never develop fully indigenous industries, remaining dependent on other nations for expertise in design, tooling, manufacturing processes, and major components of most military equipment, especially large items.

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The USSR has sold facilities for repair and overhaul of major military equipment, including rights to fabricate some spare parts, to a few countries. We believe many countries acquire these facilities to gain technical experience which can later be applied to arms production.

[Redacted]

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Moscow's Warsaw Pact allies are somewhat more active in the coproduction market, although as far as we know they have licensed no major combat arms to date:

- Czechoslovakia, which has a strong arms industry, has licensed indigenously designed equipment. Prague is helping Libya set up its arms industry with contracts worth \$500 million for production feasibility studies, a small ammunition plant, and facilities for overhauling L-39 aircraft, [Redacted]. Prague also has sold ammunition and truck plants, and overhaul facilities to India, Iraq, Indonesia, Cuba, and Ethiopia.
- Other Warsaw Pact members have sold licenses for equipment they produce under Soviet license. Bulgaria sold an AK-47 plant to Tanzania in 1980 although the plant may not yet have been constructed. East Germany sold arms production equipment to Syria in 1983. [Redacted] Warsaw Pact countries have several contracts to help Iraq set up factories for such items as munitions, machineguns and gas masks. We believe Moscow has allowed its allies to extend licenses in these cases. [Redacted]

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Why So Few Soviet Licenses?

We believe that several factors account for Moscow's very limited use of licensing in transferring arms to the Third World. [Redacted]

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We believe Moscow's primary objectives in transferring arms are political and military rather than economic. To further these ends, the Soviets try to keep arms recipients dependent on Moscow, not only for arms but also for spare parts and overhaul, even though this often irritates the recipient. We believe licensing might facilitate sales, but it also carries several risks which Moscow has learned threaten the more important goal of control:

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[Redacted]

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- China's ability to use its Soviet supplied arms industry to maintain independence from the USSR serves as a worst case example to Moscow of the dangers of licensing.
- The Egyptian case demonstrated that even limited licensing can reduce a client's dependence on Moscow. Cairo coproduced only a few Soviet arms and had less technical ability than Beijing, but was able to turn to other countries to keep its production lines open and in some cases improve on Soviet designs. While Moscow never threatened to cut off arms to Cairo during war, production of even munitions, spare parts, and small arms gives a Soviet client some ability to ignore a Soviet arms embargo in a short war.
- In addition, we believe that Moscow, like the United States, is worried that licensing will lead to the compromise of Soviet arms technology, particularly that used in advanced equipment which favored customers such as India may coproduce.

[Redacted]

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The Limited Industrial Capability of many of Moscow's leading arms clients--Libya, Angola, Vietnam, Syria, and Ethiopia, for example--makes it unlikely that they could produce many arms, even if the Soviets provided licenses. We believe, however, that this factor is declining in importance-- most of the above states either have or are looking for arms production despite their inability to do much more than assemble larger equipment. In our view, many Third World countries are considering the future availability of licenses in purchase decisions. [Redacted]

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Lack of Money is a final reason why several of Moscow's major clients cannot obtain licenses. The Soviets can easily deny licenses to countries such as Ethiopia, South Yemen, and Vietnam--which have little prospect of turning to other suppliers for arms, and receive nearly all of their arms from Moscow at little or no economic cost.

[Redacted]

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The Challenge to Moscow

Soviet unwillingness to help its major arms clients develop defense industries has led many to look elsewhere to acquire licenses and production equipment. West European nations have long been willing to provide licensed production in order to increase their export earnings and attach few or no political strings to sales. A variety of reporting indicates Western technology is more attractive than Soviet because it is more sophisticated. Moreover, many of Moscow's larger clients, like many other Third World states, want to diversify their arms sources. We believe that a Soviet client trying to diversify might seek licensing as a way to acquire Western arms because hard currency costs are lower than in direct purchase. Diversification efforts probably have also led to

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coproduction of Yugoslav and Chinese arms, which are not sophisticated, but are more readily available than Soviet licenses. [Redacted]

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For these reasons some Soviet arms clients produce more arms under license from other countries than from the USSR and Warsaw Pact:

- India produces a wide range of Western arms. For example, New Delhi has made or is making West German submarines, French missiles, and British frigates, tanks, and fighters. New Delhi also has turned to the West for aid in its indigenous light helicopter, light combat aircraft (LCA), and main battle tank programs. [Redacted] We believe these projects will include coproduction of Western components.

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- Algeria turned to West Germany in 1974 for rocket and explosives factories worth \$500 million. Open sources indicate Algiers is producing British patrol boats under license. [Redacted] Algiers is negotiating with several West European firms and Brazil for coproduction of ships, helicopters and armored vehicles.

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- Iraq contracted with Yugoslavia in 1976 for a number of factories to produce munitions, small arms, and rockets. Austria, West Germany, Brazil, and France also have sold Iraq licenses to coproduce arms. Most of these deals are for small arms, munitions, and light artillery. Iraq apparently is delaying new purchases involving coproduction because of the war, but we believe Baghdad will eventually sign deals for air-to-air and anti-tank missile production and for jet trainer assembly.

- Libya probably bought ammunition and explosives plants from Yugoslavia and Turkey in 1980. [Redacted]

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[Redacted]

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Soviet policy toward India indicates that Moscow has already responded to the threat of the Western suppliers by offering coproduction. We believe the Soviets have granted several licenses to New Delhi in direct response to India's expression of interest in Western licenses or Western aid in various indigenous projects. Moscow offered MIG-29 coproduction as a substitute for Mirage 2000 coproduction and the LCA project, which will be built largely with West European assistance, in our view. [Redacted]

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Outlook

In our view, the growing interest in arms production in the Third World coupled with the challenge of Western suppliers willing to extend licenses will lead the USSR--reluctantly--to offer coproduction to some of its major clients in the next five to ten years to avoid erosion of its dominance in these markets. The Soviets will be most forthcoming in countries such as Algeria, India, and if the war ends, Iraq. These countries already are diversifying arms sources and looking for licenses to produce a variety of military equipment. Moscow also probably will offer some licenses to countries it wishes to court, such as Peru and Nigeria. We believe the same set of forces governing its own actions will lead Moscow to encourage or acquiesce in the extension of more licenses to Third World countries by its Warsaw Pact allies. By contrast, in our view, the USSR will offer few or no licenses to countries such as Vietnam, Cuba, and Syria--which have less money, industrial capability, or ability to find alternate arms sources. [redacted]

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A few countries--Algeria, for example--may eventually acquire enough Soviet production licenses and enough production capability to lessen their overall arms dependence on Moscow. We believe that a country with licenses to produce most of its small arms, munitions, and at least spare parts for major equipment would have a sharply improved bargaining position with Moscow for purchases of other equipment and would be less concerned about taking actions that threatened its arms ties to the USSR because the threat of an embargo would be much less severe. Countries in this position would be able to diversify sources of raw materials, machine tools, components, and spare parts needed to run their arms industries by buying from countries such as China, Yugoslavia and North Korea, and through programs such as "Bears Spares." Those that pay hard currency for Soviet arms might have more money to diversify sources of major arms, or to buy licenses to coproduce these arms, in our view, because payments to the USSR would be lower. [redacted]

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Expanded Soviet licensing will also, in our view, increase opportunities to gain access to Soviet arms production and weapons technology. We believe that the ability of Third World countries to safeguard such technology is much less well-developed than Moscow's, and if a country broke with the USSR, as Egypt did, it would have little incentive to protect Moscow's technology. [redacted]

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Finally, expanded experience with licensed production of Soviet equipment itself probably will cause some countries to become disillusioned with Soviet military aid. Poor Soviet follow-on support, a frequent occurrence in direct sales, will probably also occur in license agreements, causing production delays and more friction than is usual with Western suppliers, in our view. We believe the low quality of Soviet production technology also will lead some countries to conclude that they must turn to the West for the advanced defense industries they hope to develop. [redacted]

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An Alternative Prospect

We believe there is an outside chance that in a few instances a Third World country's expanding experience with Soviet licensing could in a sense backfire, resulting

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in greater, not lesser, dependence on Moscow. For example, it is not implausible that the Soviets might decide to aggressively promote licensed arms production in Syria even though there is little Western competition. Damascus might ultimately find itself coproducing not only small arms, ammunition, and spare parts, but also major combat arms. Under this scenario, Syria's investment in and commitment to Soviet-style production methods would become so heavy that it would no longer be economically practical for Damascus to break suddenly with Moscow. Syria would have an entire industry with a large workforce dependent on military trade with the Soviets. Soviet advisors in the arms industry, and the close government contacts needed to ensure steady supplies of parts, materials, and machining would give the Soviets opportunities to develop stronger ties to Damascus. Also, we believe that Syria would in these circumstances be more reluctant to threaten its ties to the USSR because in the event of a break with Moscow finding outside help to keep the major arms plants running would be extremely difficult.



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Appendix: Soviet Licensing To Communist States

In contrast to its policy in the Third World, Moscow built extensive arms industries for most of its Communist allies in the 1940s and 50s. Eastern Europe, China, and North Korea all benefited; China received over 100 factories to produce a full range of Soviet-style conventional arms. Eastern Europe already had large indigenous arms industries, but also began to make Soviet arms. Agreements with Eastern Europe continue, while North Korea received a few additional licenses in the early 1970s. [Redacted]

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Moscow has not extended this generosity to Communist states in the Third World. Vietnam received a few arms factories around 1960, some built by China. Cuba has received no Communist license since the early 1960s--when Moscow was still solidifying its position in Havana. We believe Moscow wants to keep these countries as dependent as possible to avoid any chance that they will follow Beijing's lead in charting an independent course. [Redacted]

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[Redacted]

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