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9 February 1972

MEMORANDUM FOR:

SUBJECT : Recent Indo-Soviet Economic and Military Aid
Relations

Attached is the summary of recent Indo-Soviet economic and
military aid relations which you requested.

Chief,
Office of Economic Research

Attachment
As stated

CIA HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
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Indian relations with the USSR in 1971 were highlighted by the signing of a 20-year Treaty of Peace, Friendship and Cooperation in August and by Soviet support for India in the latter's conflict with Pakistan. Despite the closer political ties that evolved, however, Soviet economic aid activities continued at a relatively low level. India has received no new commitments of economic assistance from the USSR since 1966 nor have any major new projects been initiated under old agreements in recent years. Work on projects already under construction continued at a reduced rate in 1971, and the number of Communist economic technicians in India remained virtually unchanged from 1970. Indian trade with the Communist countries, however, may have increased in 1971, if the pattern of the last several years was sustained.*

Drawings on Communist economic aid probably fell again in 1971. Most of the drop was due to Moscow's refusal to allow the diversion of unused credits to nonproject use and Indian restraints on the expansion of heavy industry. New Delhi's conservative fiscal and import policies restricted the amount of government spending for heavy industrial projects in the public sector, while labor-management problems and raw material shortages slowed the implementation of projects already under construction. These impediments were not a consequence of India's confrontation with Pakistan;

* 1970 is the last year for which trade data are available.

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they pre-dated the conflict. The reduction of public industrial investment in India stems from an Indian decision to use existing plant capacity more fully during the present five-year plan before adding new plants and to limit additions to only a few critically short areas. The plants wanted by India (such as petrochemicals and fertilizer plants) are ones that the USSR is not willing to provide.

The Bokaro steel plant, being built with Soviet credits extended in January 1965, is the only major heavy industrial undertaking currently being constructed with Soviet assistance. The first stage, which will have an ingot capacity of 1.7 million tons, has fallen 15 months behind schedule and there is speculation that the revised target date of March 1973 also will not be met. However, work was begun on the second stage, which will bring capacity up to 2.5 million tons.

Progress on other Soviet assisted projects was slow and the \$555 million of Soviet credits extended in 1966 remained virtually undrawn. The Indians continued to press for application of surplus credits to raw materials and equipment required for its established industrial plant, but Moscow still is not willing to allow this diversion of credits.

India's arms acquisition program was accelerated following the onset of civil war in East Pakistan. The USSR and India signed new

- 2 -

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FEB 1972

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military aid agreements during 1971. Soviet military aid during the year apparently was designed to continue to fulfill India's long-term military requirements as well as to meet its immediate needs. Soviet-Indian agreements included a naval aid accord for Petya-class patrol escorts and F-class submarines, which had been under negotiation since 1970 and which were scheduled for delivery sometime after 1971; an agreement for about MI-8 helicopters, some of which reportedly were delivered in 1971; and accords for a significant number of tanks, armored personnel carriers, artillery, and anti-tank missiles.

The volume of Soviet military shipments to India during 1971 increased over the 1970 level. They included SU-7 fighter-bombers, possibly some MIG-21 trainers, and some of the ground force equipment contracted for in 1971. A small-scale Soviet airlift to New Delhi conducted late in October may have carried spare parts for aircraft and air defense equipment under a 1970 accord. During the first four months of 1971, India received

Soviet Osa-class guided missile patrol boats, which subsequently were used against the Pakistani navy and Karachi shore facilities in the December war. These boats, along with a recon-ditioned submarine rescue vessel which arrived in India in November, were purchased under a February 1969 military aid accord.

- 3 -

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FEB 1972