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MEMORANDUM FOR: See Distribution ..

SUBJECT: Soviet Military Assistance to the Third World: Major Cuts Unlikely in the Next Two Years

1. The attached memorandum assesses the prospects for major cuts in Soviet military assistance. Moscow's practice of using multi-year agreements for arms transfers provided on an aid basis makes sharp reductions unlikely until current contracts are completed in 1990-1991. The Soviets appear determined, however, to cut the costs of aid in the longer term.
2. This memorandum was prepared by Office of Global Issues
3. Your comments and queries are welcome

Attachment:
GI M 89-20035

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Central Intelligence Agency



ORGANIZATION

DIRECTORATE OF INTELLIGENCE

1 May 1989

Soviet Military Assistance to the Third World: Major Cuts
Unlikely over the Next Two Years

Summary

Moscow's long-term agreements to provide military assistance to Third World nations will limit its maneuvering room in cutting costs over the next two years. [

] indicate that most Soviet arms deliveries to Moscow's Communist and Marxist clients and several other less developed countries are covered under contracts that run through 1990 or into 1991. We believe Moscow will honor existing contracts--which provide over \$6 billion annually in grant military aid--to these countries and may even give additional assistance to clients fighting insurgencies. Nonetheless, Moscow appears increasingly determined to cut the costs of its military assistance program, and we expect that in negotiating the next series of agreements it will be less generous.

This memorandum was prepared by
Office of Global Issues based on information
available as of 15 April, 1989.

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Soviet Military Assistance to the Third World: Major Cuts
Unlikely over the Next Two Years

Introduction

The USSR is trying to make arms transfers more profitable as part of Gorbachev's restructuring of the Soviet economy. A major part of this effort has consisted of reducing the amount of weapons provided to Third World nations on an aid basis. Of the \$19 billion in Soviet arms delivered in 1988, \$8 billion--over 40 percent of the total--was provided on an outright grant basis, and an additional 20 to 25 percent of arms exports were financed by loans that will probably never be repaid. Moscow's contracting practices, however, will make reducing this burden difficult.

Assistance Based on Long-Term Contracts...

Moscow typically provides military assistance to Third World countries which receive arms on an aid basis through comprehensive multi-year agreements. [

] these agreements usually detail all the equipment Moscow plans to deliver over a three to five year period. While an agreement may be a single contract or an umbrella credit facility under which several delivery contracts will be signed, it always lists the value, terms, and delivery dates of the equipment. In addition, the agreement includes a reserve of 10 to 15 percent of the value of the deal to finance imports of spare parts.

We believe that all of Moscow's Communist and Marxist allies in the Third World currently have multi-year arms contracts with the USSR:

- o Ethiopia and Mozambique signed contracts in 1987 that run through 1990. []
[] negotiations were protracted, and we believe the packages were intended to cover 1986 through 1990.
- o Angola has a contract that runs through 1990, according to []
- o [] Nicaragua is currently receiving arms under a 1986-1990 agreement, the "Diarangen I"--or 19th of July plan--that runs until 1990.

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- o [1986 the Soviets agreed to support Vietnam's occupation of Cambodia through 1990. We suspect that Cambodia probably also signed a contract around the same time.]
- o [late 1985 Laos was preparing its aid request to cover 1986 through 1990.] in
- o [Cuba receives its arms under five-year contracts. While we do not know the period covered by the current deal, we believe it is probably tied, as is Moscow's economic aid to Havana, to the Soviet five year plan that ends in 1990.]

We do not have specific information on recent Soviet arms agreements with South Yemen and Afghanistan, but we believe they probably also involve multi-year contracts since countries with similar political and economic circumstances typically receive comparable military assistance terms from Moscow. Moreover, Afghanistan signed several multi-year deals in the 1970s and a two year supplement in 1983 to a major 1982 deal.]

Soviet assistance to a number of less closely allied Third World countries is also covered under multi-year arms contracts:

- o Tanzania signed a four-year arms package in 1987, []
- o Burundi is receiving arms under a five-year package dating from 1986, [] This is Bujumbura's third multi-year package.
- o Congo signed a five-year package deal in 1982, [] we do not know if it has a new deal.

[] Damascus receives arms under some sort of five-year plan. Damascus' problems securing new Soviet weapons in the last several years, however, suggest that the plan probably is not a firm multi-year contract.]

The Soviet Union often supplements the main arms package with smaller contracts that we estimate can add about 25 percent more to Moscow's military deliveries to a given country. Analysis []

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[] for example, indicate that some equipment--notably transport aircraft and helicopters--is often not included in a main contract.* [] Soviets also sign supplementary contracts to meet specific client needs, most often for countries fighting insurgencies or wars. [] for example, [] Ethiopia signed a supplementary contract in 1988 to replace heavy war losses. According to [] the Ethiopians were seeking another contract to provide emergency aid in early 1989. [] Afghanistan received a supplementary contract in 1983, and we believe Moscow signed a number of supplementary agreements with Kabul in 1988 to bolster its forces as Soviet units withdrew. [] Moscow probably agreed to at least part of a Nicaraguan request for a 1988-90 supplement to its five-year agreement. **

... Will Limit Near-Term Cuts in Deliveries

The multi-year nature of these arms agreements will, in our view, limit Moscow's ability to cut the costs of military assistance to its Third World clients through 1990. We estimate that the countries receiving multi-year contracts are scheduled to receive at least \$6 billion annually in outright grant military aid from the USSR through 1990--75 percent of total Soviet grant aid--and another \$2 to 3 billion in defacto grant aid. *** Based on its past behavior as well as the nature of the clients and their needs, we expect that the USSR will fulfill its existing contractual commitments, thereby ensuring continued largescale deliveries over the next two years. [] no [] reporting [] indicates that the Soviets intend to abrogate existing agreements unilaterally, and deliveries so far in 1989 are continuing at a high level. Moreover, Gorbachev was in power when the current agreements were signed and almost certainly approved them.

*This probably reflects the Soviet bureaucratic structure in which civil export organizations sell these items directly rather than through the main Soviet arms exporter, the Chief Engineering Directorate of the General Staff.

**The Soviets and their clients also typically sign dozens--or even hundreds--of small supplements financed out of the spare parts reserve in the main contract. These deals are not included in the 25 percent estimate because they do not increase the overall value of a contract.

*Defacto grant aid consists of arms sales financed by loans that Moscow knows are unlikely to be repaid.

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While there are unlikely to be major cuts in Soviet arms deliveries to its clients in the short term, there probably will be limited cuts resulting from reductions in supply to countries currently fighting wars and normal fluctuations in delivery patterns. Fighting in Cambodia fell sharply in 1988, for example, and our analysis [] indicates there was a corresponding drop in shipments of consumables and of the value of deliveries to Vietnam and Cambodia. The probable collapse of the Afghan regime also will reduce Moscow's aid bill. Soviet deliveries to all of its clients could fall modestly in 1990: [] indicates that the value of deliveries usually falls in the last year of a deal because most or all of the major weapons have already been shipped.

A Tougher Stance in the Next Round of Negotiations

Over the longer term, [] indicates that Moscow plans to cut back sharply on military aid to Third World clients as current contracts expire in 1990 and 1991. []

[] the Soviet military has been told not to plan for any increases in military aid in 1989 and 1990 and that Moscow plans to ease out of its commitments to provide arms to clients. Foreign Minister Shevardnadze stated publicly in late 1988 that the USSR cannot supply all of its clients' military and economic needs. With regard to specific clients:

- o [] Soviets have told Vietnam that they will support its occupation of Cambodia only until 1991. []
- o [] reports Soviet Politburo member Chebrikov may have warned Ethiopian officials in January 1989 that Moscow will not renew its military aid agreement in 1991. []
- o [] in late 1988 that Moscow plans to cut military aid to Maputo by 40 percent. [] told

Soviet efforts to push negotiated settlements in Indochina, Ethiopia, Afghanistan, and Nicaragua would, if successful, substantially reduce demands for Soviet military assistance.

While Moscow's previous threats to cut military aid have proved empty and some [] suggesting future cutbacks could be part of a propaganda effort, we believe that, if Gorbachev continues to hold power, Moscow probably

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will cut arms aid significantly in the early 1990s.* The Soviet leadership is looking for savings to help reinvigorate the domestic economy, and we believe that it probably perceives the Soviet military aid burden to be both unnecessarily heavy and largely without payoff. In our view, Moscow will be particularly tough with Cuba, South Yemen, and other states not facing an immediate military threat, reasoning that cutbacks in aid will neither endanger these regimes nor seriously erode the Soviet position since these countries have few prospects to find alternative arms sources. We believe that the USSR does not plan to abandon any regimes, and clients facing continuing insurgencies or wars are likely to see smaller cuts in aid. Even countries at war, however, probably will find Moscow less willing to provide the weapons they seek--particularly if, like Ethiopia, they do not follow Moscow's advice to negotiate.

*Moscow will, on the other hand, continue efforts to increase arms sales for hard currency or other tangible returns.

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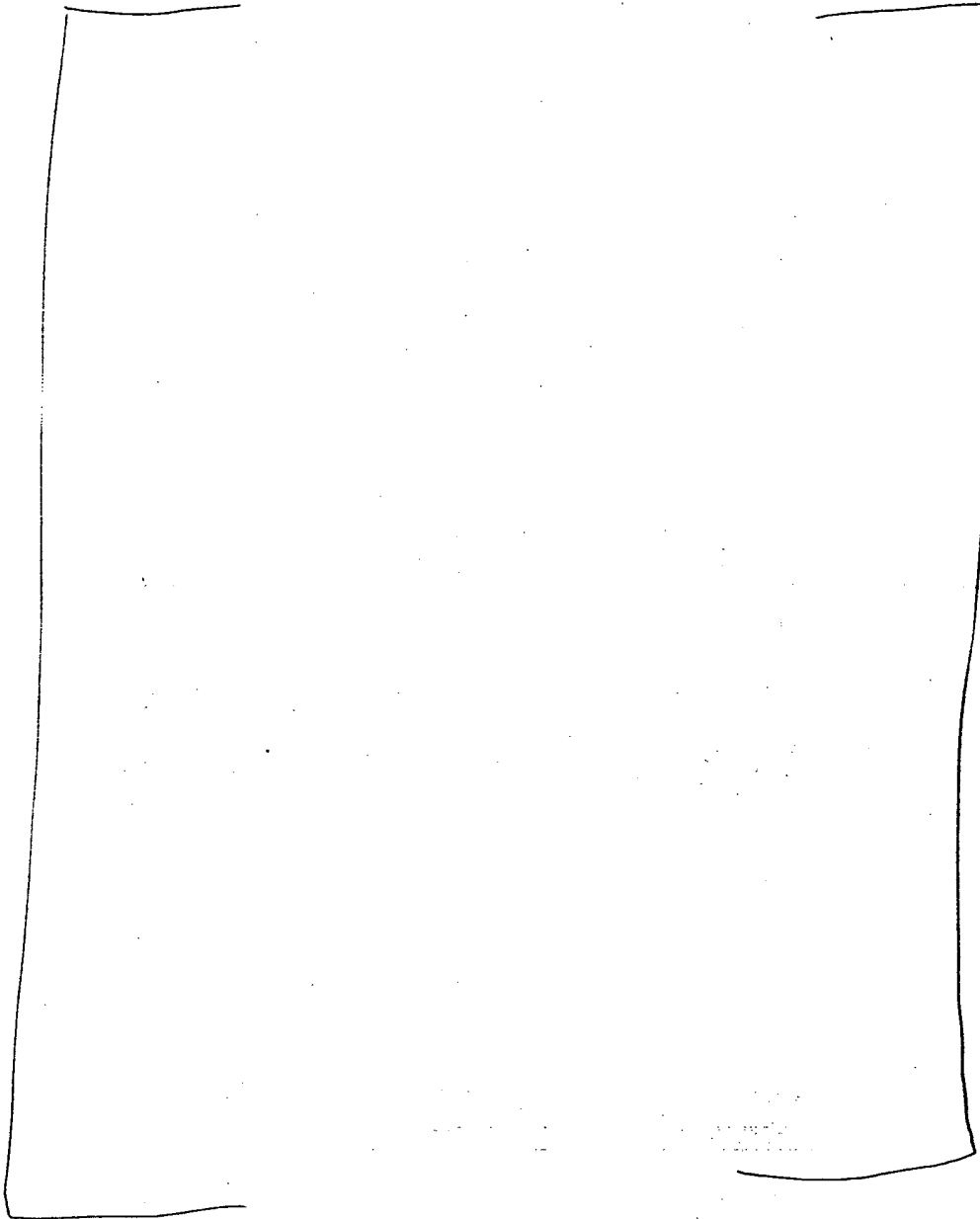
Appendix

Soviet Arms Contracts With Other Nations

Moscow signs both comprehensive long-term arms agreements and smaller contracts, sometimes for a single weapon system, with paying customers in the Third World. [package deals [but] India and Algeria signed more specific contracts [for example,] India signed a contract for air defense equipment [] and bought Kilo submarines [] in a separate agreement. [] Algiers rejected a Soviet effort to sell it a comprehensive package deal [] and instead bought only ground and naval arms. The pattern of deliveries to Iraq [] suggests that Baghdad may have signed a number of two year contracts. Several other nations, such as Kuwait, Peru, and Jordan, have bought Soviet arms only sporadically and have not needed long-term agreements.

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Table One



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SUBJECT: Soviet Military Assistance to the Third World:
Major Cuts Unlikely in the Next Two Years

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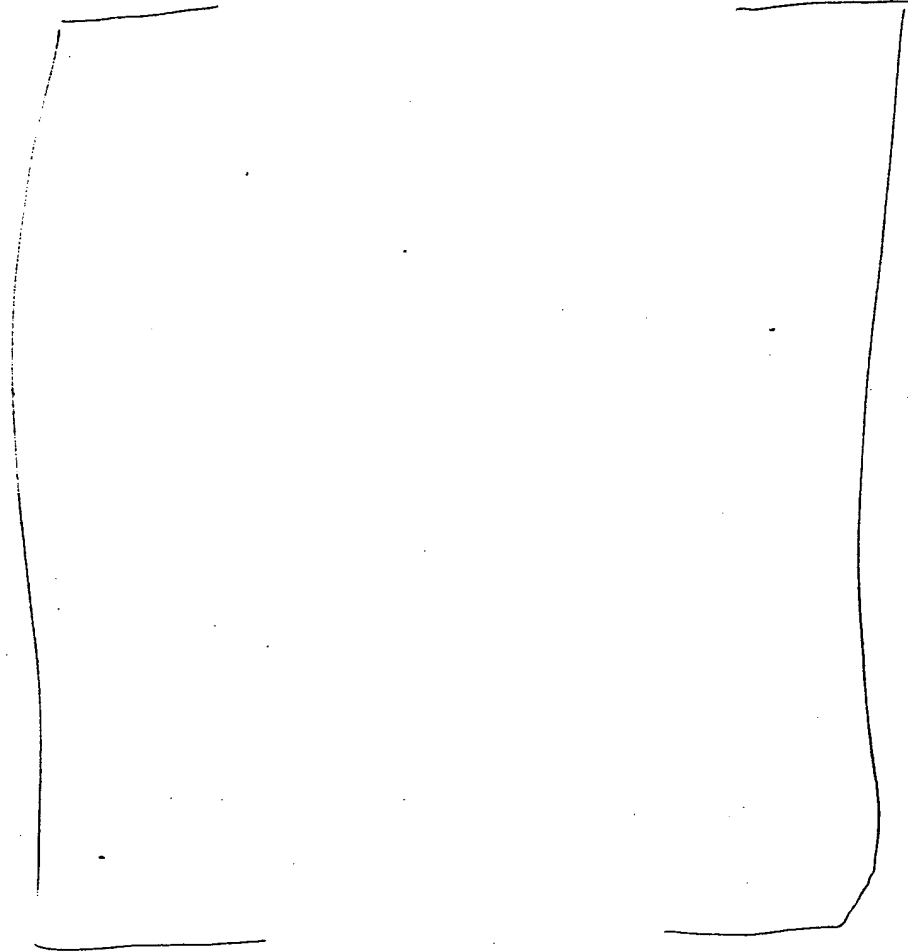
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