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ECONOMIC COMMITTEE

COMMUNIST AID TO THE DEVELOPING COUNTRIES 1975-1976

Note by the Chairman

Members will find attached the basic US contribution to the meeting with experts on 16th June next dealing with Communist aid to the LDCs. A first major US paper on Communist aid to the Third World in 1975 was issued on 16th November, 1976 as AC/127-D/542. An additional contribution is expected shortly from the UK Delegation.

(Signed) J. BILLY

NATO,
1110 Brussels.

This document consists of: 48 pages

N A T O S E C R E T

Communist aid to the Less Developed Countries of the Free World, 1976

Aid Patterns

Soviet economic and military aid, by far the largest Communist program in the Third World, continued to reflect Moscow's international political interests in 1976, while also enhancing its commercial position. The Soviet venture into Africa, Moscow's readiness to provide sophisticated weapons systems on favorable terms to Peru, and accelerated military and economic aid to Iraq dramatized again Moscow's use of aid in pursuing its foreign policy objectives in the Third World. As in most recent years, military sales were the USSR's most powerful instrument. The value of Soviet military commitments was almost triple economic pledges.

The Soviet political decision to establish a strong presence in Africa was supported by large military assistance programs in Angola and Mozambique; arms and technical assistance (including Cuban technicians) to national liberation movements in southern Africa; and continued military aid to Congo, Uganda, and Somalia. Moscow also provided most of these countries with small amounts of economic aid. Other significant politically motivated developments include:

- An expanded Soviet role in Lima's military establishment as a result of Moscow's first sale to Peru's air force, which made Moscow Peru's principal arms supplier.
- Unprecedented military support to Iraq—possibly to guarantee a Soviet presence in the Near East—that made Iraq Moscow's largest current Near East arms client. Iraq also received a new commitment of economic aid.
- Sharply reduced arms shipments to Syria in the second half of 1976 and failure to sign a new Soviet-Syrian military agreement for the first year since 1969, because of Soviet displeasure over Syria's foreign policy.
- A continuing embargo on arms to Egypt, after a cutoff in mid-1975.

At the same time, the USSR used military and economic programs to expand commercial interests in the Third World. Hoping to share more heavily in the new oil wealth and to reduce unprecedented global hard-currency deficits, Moscow sought cash sales and often exacted harder terms than before for economic aid as well as military sales. The large hard-currency earnings and additional assured supplies of certain strategic raw materials have put Moscow actively into the arms merchant class.

Moscow parlayed its arms deals into a \$2.5 billion business in 1976. Fast delivery, a willingness to sell sophisticated weapons systems to almost any LDC, and somewhat smaller price tags than for comparable Western equipment earned Moscow as much as \$1.5 billion in hard currency or equivalent goods on its 1976 deliveries. These derived mostly from massive

Par Day

Secret

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- Bulgaria will expand the 115,000 hectares of land already reclaimed by its contractors with waters from a major dam it is building at Mitidja;
- Hungary completed a technical school in Oran, and Poland agreed to establish 10 state farms;
- Romania began delivery of petroleum rigs and designed a university center in Constantine.

China, with the smallest Communist program in Algeria, agreed to construct a rice-processing plant and several small agricultural projects.

Since the departure of the French in the 1960s, Algeria has relied heavily on Communist technicians not only for project assistance but also in administrative and professional roles. In 1976 the number of East European technicians rose above 4,100, while the number of Soviet technicians remained at 2,500.

Military Relations

The USSR moved rapidly to fill contracts under its record \$500 million 1975 military commitment. Deliveries totaling about \$190 million included:

- Moscow's first aircraft deliveries to Algeria since 1974—jet fighters, which included the advanced L version export model;
- Algeria's first OSA-II missile attack boat; and
- A Polnocny-class medium landing ship.

Deliveries may also have included SA-6 surface-to-air missiles, believed to have been part of the half-billion-dollar deal.

The number of Soviet military technicians in Algeria (now estimated at 650) will rise sharply with the expanding high-technology inventory and more Algerians will go to the USSR for training.

ANGOLA

Angola's new government moved quickly to formalize its new Soviet relationship with a Twenty-Year Friendship Treaty and large contracts for additional Soviet military supplies.

Major Military Aid Target

To take advantage of the MPLA victory and Moscow's enhanced image among radical black African states, the USSR allocated the largest share of its black African military aid to Angola in 1976. New contracts with Luanda totaled an estimated \$170 million, and shipments (\$189 million) surpassed 1975 crisis levels. Moscow replenished stocks depleted during the fighting and stepped up deliveries of new weapons systems including jet fighters, modern tanks, and SA-7 missiles under a \$151-million 1975 agreement.

*Algeria
1976*

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deliveries to Libya, Iraq, and Algeria, all believed to be cash customers. An estimated 70 percent of all new orders last year will probably be paid in hard currency or its equivalent. 6593A2

As in every year since 1970, arms sales kept Moscow's trade with LDCs out of the red in 1976 as well as providing it with a possible \$1.5 billion of hard currency. Such sales, which have accounted for about a half of Moscow's total exports to LDCs in some recent years, underpin Soviet trade surpluses with the Third World. Preliminary estimates for 1976 indicate that had it not been for arms exports, the Soviet trade surplus of \$1.2 billion would have been a deficit.

In contrast with arms sales, Soviet economic aid has become a static program, focused on a handful of recipients. No major new initiatives emerged in 1976, and the \$900-million aid package contained no surprises. A few large credits went to Moscow's traditional clients, and once again the program was commercially slanted. Both the USSR and Eastern Europe provided most of their aid in the form of trade credits, which have shorter repayment periods and carry higher interest rates than traditionally allowed under development agreements. Some agreements—especially those with Latin American countries—were associated with formal trade accords and were open ended.

Payments agreements increasingly specified hard-currency settlements, although economic aid still is usually repaid with raw materials or from the output of projects build under the aid program. Iran, Iraq, and Syria, for example, probably will provide oil to discharge a part of their obligations under new Soviet and East European agreements, and credits to Morocco and Tunisia appear designed to obtain access to phosphates.

Economic aid continued to dominate East European and Chinese programs, although Chinese military assistance peaked in 1976 following record commitments to Pakistan, Zaire, and Egypt.

At the end of 1976, LDCs had taken delivery of about \$30 billion of the \$47 billion in Communist economic aid and military commitments made them over the past two decades. The delivery figure is heavily weighted by the military, for which deliveries have been far larger and more rapid than for economic aid. Nonetheless, large repayments of principal and interest continue to erode the flows; by the end of 1976 LDCs had repaid about \$5.8 billion of their debt principal. Repayments for economic aid in 1976 were equivalent to about half of the \$955 million in total Communist disbursements. In the case of Soviet economic aid, a net of only about \$50 million remained after repayments, and Moscow's former major clients—Egypt and India—sustained negative flows.

The Military Program

A Banner Year

Despite the recent cooling of Soviet relations with a number of favored clients, Communist military supplies to the Third World rose to a near peacetime record in 1976. Massive arms agreements reported with Iraq, huge new sales to Iran, and major new deliveries to Iraq and Libya pushed Communist military activities to heights reached only in 1973/74 when the USSR replenished client inventories in the Middle East during and after the October War.

Moscow accounted for about 90 percent of the \$2.6 billion of new accords and of the \$2.5 billion in deliveries (See tables 1 and 2). China's \$95 million in agreements were almost 20 percent above any previous year, with four new African clients (Botswana, Ethiopia, the Central African Empire, and Rwanda) added to the roster. East European military contracts fell to \$80 million, their lowest level since 1970.

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Arms deliveries in 1976 surged, as Moscow rushed to fill orders that have accumulated as a result of heavy commitments that began in 1973. The near record was somewhat below expectations, however, because of Moscow's sharply reduced deliveries to Syria in the last six months of 1976.

Problems in Egypt and a faltering relationship with Syria did not alter Moscow's preoccupation with the Middle East/North Africa. Although this area still claims the largest share of total Communist arms supplies, the distribution is changing, and the more radical Arab states have emerged as major recipients. This shift has advantages to Moscow in that Iraq, Libya, and Algeria are cash customers, even though they may not serve the same Soviet interests as Egypt and Syria had before. Moscow also built a military presence in sub-Saharan Africa by consolidating its position in Angola and giving increased support to insurgent groups in southern Africa.

The dollar values cited for military goods throughout the paper represent an update and revision of data previously used for Soviet arms exports and agreements in 1972-75 (see appendix B). Recent information on Soviet prices for major items of equipment, and the translation of ruble prices into current dollars, raised the value of Soviet agreement and deliveries during the four years by about 45 percent on the average. Two thirds of the increase was due to estimates of higher Soviet prices.

Major Clients

The most significant development in Moscow's military diplomacy with LDCs in 1976 was the cooling of the Soviet-Syrian relationship. The Soviets reduced the flow of arms in second half 1976 and failed to sign a new arms accord for the first year since 1969, showing displeasure over Syria's Lebanon adventure, its closer ties to Egypt, and its acquiescence to a US role in Middle East peace negotiations. Although the \$290 million in arms shipped in 1976 surpassed 1975 deliveries, second half deliveries fell to about \$50 million.

Communists relations with other major Arab clients—except Egypt—continued apace. An estimated \$1.2 billion Soviet agreement in principle with Iraq had previously been equaled only by a similar agreement with Libya in 1974. The new accord, together with deliveries of almost \$500 million, propelled Baghdad into first place among current Soviet arms recipients. East European countries sold about \$50 million worth of arms to Iraq. Aircraft to support Baghdad's modernization plans bulked most heavily in Soviet-East European shipments and included MIG-23s, SU-20s, and advanced MIG-21 Ls.

Soviet deliveries to *Algeria* and *Libya* also set records. Libyan receipts of sophisticated land armaments, jet fighters, and bombers exceeded half a billion dollars, bringing total deliveries under the 1974 agreement to more than \$900 million. Algeria's receipts of almost \$200 million were part of a ⁵⁰⁰ million order placed in 1975 for equipment to improve its defense capabilities in the Western Sahara. 459384

Libya's military establishment can neither absorb nor maintain the vast quantities of arms that have deluged its inventories over the past two years. Despite extensive Soviet training of Libyan nationals—1,100 Libyans in the USSR and many more in Libya—Tripoli still relies heavily on foreign technicians. In 1976, 850 Communist advisers were in residence to support Libya's \$1.3 billion - Communist-supplied inventory. Tripoli continues to stockpile arms, possibly for use by other states as well as for its own defense.

In 1976, Moscow also made large sales to Iran, Peru, and India. New Delhi is a \$2.4-billion customer and Tehran's total purchases are over the \$1.3 billion mark. The new orders included:

- A \$500-million order by *Iran* for ground forces equipment, Moscow's second largest agreement in 1976 and its largest ever with Tehran.
- A record \$325-million sale to *Peru* that marks the first placement of Soviet jet fighters in the Western Hemisphere (outside of Cuba). The sale establishes Moscow as Lima's principal arms supplier.
- A \$135-million *Indian* order for MIG-21 BIS jet fighters to compensate for the slow production of MIG-21s in India under Soviet license. Meanwhile, deliveries to India maintained the usual levels of recent years and included MIG-21 BIS fighters, OSA II class guided-missile boats, and surface-to-air missiles.

Buoyed by its success in establishing a major presence in southern Africa in 1975, Moscow moved rapidly to sign new agreements with clients in the region. In contrast to commercially oriented policies elsewhere, favorable financing terms were undoubtedly offered new clients in sub-Saharan Africa.

The USSR's relationship with Angola was enhanced by a Twenty-Year Friendship Agreement, as well as commitments to provide \$170 million of military equipment to upgrade Luanda's military establishment. The pledge was Moscow's largest ever with a sub-Saharan country. Deliveries to Angola—also a record for the sub-Sahara—reached almost \$190 million under commitments made before and after independence and introduced new weapons systems including jet fighters, modern tanks, and guided antiaircraft missiles. Moscow also increased shipments of military equipment through established African governments to support insurgent groups in southern Africa. Mozambique, which had received pledges of \$15 million in Soviet hardware almost immediately after independence in mid-1975, signed a new agreement in 1976. In a surprise move, Moscow offered Ethiopia large credits for arms, while assuring Somalia—a rival of Ethiopia—of continuing heavy support.

Technical Services

-7-

In addition to the large new deliveries of military equipment in 1976, some 21,700 Communist personnel were stationed abroad to assemble and maintain equipment and train local units in the operation and maintenance of the new weapons (see Table 3). Soviet and East European technicians—traditionally accounting for about 90 percent of the total—were outnumbered by the 12,000 Cubans, all in Africa and the Middle East. Their presence may also support and fuel local insurgencies against established white governments. Cubans were most heavily concentrated in Angola, where an estimated 10,000 were assigned at all levels of the military. An additional 575 were in other former Portuguese colonies and 915 in Somalia, Guinea, and South Yemen, where the shortage of skills has handicapped the absorption into inventories of recent large Soviet hardware deliveries. According to rumors, Libya has requested a large contingent of Cubans to help alleviate its military manpower shortage.

Moscow's use of Cuban troops as an adjunct to its military supply program first received widespread attention during the Angolan conflict in 1975, when up to 16,000 Cuban troops were deployed to MPLA forces in connection with an airlift of Soviet military equipment. Cuban personnel trained Angolans in the operation and maintenance of their new Soviet inventory, and Cuban combat support was credited with turning the tide in favor of Soviet-supplied forces.

Although the conditions of Cuban military technical assistance are not known, the USSR has probably shouldered at least part of the financial burden. This may have involved only transport costs, but it could have included subsistence and salaries as well. In any case, there were savings to the LDCs because Cubans come at possibly less than a third of the price of Soviet or East European technicians. We estimate that salaries for Soviet and East European personnel run as high as \$15,000 to \$20,000 a year each, and are paid for on a current basis. If other allowances and costs are added, this figure might be doubled. The use of Cubans probably also was calculated to have had fewer political and social repercussions.

The number of Soviet and East European military advisers in LDCs increased 10 percent in 1976, while the Chinese presence declined by more than 30 percent. The largest increases were in Angola, Libya, Uganda, and Iraq. Soviet military technical programs in Egypt and Syria were sharply curtailed, as neither renewed service contracts that expired.

LDC Trainees in Communist Countries

Third World personnel departing for training in the USSR also are a reflection of Moscow's large new arms deals that require more sophisticated technical training than can be

given in less developed countries. Of the 2,500 personnel that went for advanced training at Soviet installations in 1976, about three fourths were from Afghanistan, Iraq, Libya, Peru, Syria, and Tanzania—all large clients with recent orders or deliveries of modern weaponry (see Table 4). Except for the Afghans, most were trained to operate and maintain aircraft and air defense systems which their countries had purchased under recent supply contracts. 6528 82

We do not have information on financial arrangements for these studies. However, civil air personnel under long-term programs in similar specialties are charged a minimum of \$580 a month for studies in electronics and \$1,625 for aircraft mechanics. Rates for military contracts—usually short term—might be less. Living expenses of about \$250 per month and transportation costs must also be added. By the end of 1976 some 47,000 Third World military personnel had trained in Communist countries, more than four fifths in the USSR.

Economic Aid

Communist aid pledges were apparently more conservative in 1976 than in most recent years, although our estimates probably understate such commitments because values of some agreements are not known. At the end of 1976, the USSR was negotiating agreements with Latin American countries and Indonesia that could easily provide \$550 million in additional credits.

The \$1.5 billion actually pledged was half a billion dollars below the annual average of commitments in the five preceding years (see tables 5, 6, and 7). While Soviet aid commitments, which accounted for 60 percent of the total, maintained the 1971-75 average, Eastern Europe's commitments fell 25 percent. Chinese aid dropped even more precipitously.

Peking's \$100-million program was less than a fourth of the previous five-year annual average. Nonetheless, Chinese aid continued as the most concessionary program. More than half of Peking's aid was given as outright grants for cost overruns on the Tan-Zam railroad, while commodities and cash outlays (mostly to African countries), absorbed another fourth.

Communist aid deliveries of more than \$950 million recovered somewhat from the 1975 slump, although Soviet shipments dropped to only about \$425 million.

The Soviet Program: Continuing Large Agreements with Traditional Clients

Arab countries remained the largest recipients of Soviet aid, taking 95 percent of Moscow's new extensions. Large commitments to these countries confirmed Moscow's policy of selectively providing assistance to countries with which the USSR hopes to expand or consolidate political, economic, or commercial ties. Repeating the pattern of 1975, large agreements with three countries (Syria, Algeria, and Iraq) absorbed the lion's share of new pledges. While all of these agreements are expected to yield economic benefits to Moscow, the three countries also have long-standing political ties with the USSR, which Moscow is anxious to maintain. Moscow's \$860 million in aid to Arab states was dwarfed by the \$1.2 billion extended by OPEC nations. Soviet aid, mostly designated for continuing development programs, included:

- A \$290 million credit to Algeria for an aluminum plant.

- An estimated \$300 million to Syria for continuing oil, irrigation, and power development.
- At least \$150 million in new assistance to Iraq for continuing projects, complemented by \$1 billion of commercial contracts for four major power and irrigation projects.
- Smaller agreements with Jordan, Tunisia, and South Yemen, which totaled about \$100 million, largely for water and power development.

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Assistant to major clients again emphasized development of heavy industrial and power facilities, sectors in which Moscow has some advantage. Over the course of its 23-year aid program the USSR has put about three fourths of its total aid into these development activities.

Moscow's aid to sub-Saharan Africa generally responded to the needs of former Portuguese colonies for technical assistance and infrastructure development. Mozambique received pledges of aid for irrigation, mining, transportation, port management, the construction industry, and public health. Smaller agreements with Angola and Guinea-Bissau provided similar assistance.

Eastern Europe's Expanding Business Interests

Eastern Europe's \$500-million program, which was spread somewhat more widely than the USSR's, was largely to support East European efforts to expand machinery and equipment sales in the Third World. Romania again set the pace by allocating \$200 million in 10-year credits for construction of an oil refinery in Turkey. Czechoslovakia extended a \$100 million credit to Brazil for equipment purchases. Other East European aid was distributed among 10 countries spread throughout the Third World.

Meanwhile, the USSR and Eastern Europe, anxious to expand their sources of foreign exchange financing, continued to try to attract funds directly from oil producers. These efforts were backed by vigorous competition for commercial contract awards for heavy industrial projects, particularly in the Gulf Emirates. Romania continued to negotiate for Kuwaiti financing for 49 percent of a \$1-billion petrochemical complex in Romania and a \$100 million cash loan, probably on near-commercial terms. Kuwait may have agreed to place \$30 million in Soviet banks during February discussions on Kuwaiti participation in domestic Soviet projects and the use of Soviet contractors in Kuwaiti-financed Third-World projects.

Personnel: Communist Technicians

The Communist technical presence in the Third World soared from less than 60,000 in 1975 to 70,500 in 1976, despite a 25-percent decline in the number of Chinese personnel in Africa after the completion of the Tan-Zam railroad (see Table 8). The total was swelled by an inflow of 4,700 Cubans, mostly to Africa, but more significantly by a doubling of the number of East European technicians. All in all, 26,000 East European worked in LDCs, including some 12,500 working in Libya under commercial contracts.

East European personnel were concentrated in the Middle Eastern and northern African oil and phosphate producing states that can afford to pay cash or its equivalent. The estimated 21,000 East European personnel working in these countries resulted in an estimated \$200 million flow (at an average salary rate of \$15,000) of hard currency or equivalent goods to Eastern Europe in 1976. W59384

Almost half of the Soviet technicians were concentrated in Algeria, Iran, Iraq and Syria, where major new construction projects are starting. Afghanistan and India employed another 2,350. Rekindled Soviet interest in sub-Saharan Africa brought ²⁵⁰ economic technicians to Angola, Guinea-Bissau, and Mozambique for an overall increase of 650 in the area. Most of the new personnel were employed in administration, public health, and training positions. The USSR is providing 10-year credits for technical services to Angola, although Moscow usually insists on cash for services not associated with aid projects.

Moscow continued to provide services at moderate cost. Annual salaries reported for project personnel ranged between \$6,300 for skilled workers to \$11,000 for chief engineers. Salaries for personnel dispatched under short-term contracts appear to be higher—up to \$1,800 a month—and are payable in cash. Charges do not take account of local costs such as housing, insurance, or transportation costs which could double the cost of these services to LDCs. Although salaries connected with project assistance usually are repaid over 10 to 12 years, costs for contract employees normally are on a current basis.

We cannot estimate Soviet earnings from technical services because information on the distribution of personnel between project aid and commercial contracts is not available. We believe, however, that cash earnings in 1976 could have run as high as \$75 million to \$100 million.

Technical Training

Onsite instruction continued to spearhead Soviet project personnel training in 1976. According to Moscow, its domestic training activity in Third World countries had yielded 300,000 skilled workers and 150,000 managerial, administrative, and research personnel for Soviet-built projects by the end of 1976. All major Soviet industrial development contracts now call for construction of permanent associated training facilities, which guarantee a continuing supply of skilled personnel for a given project at lower costs than overseas training. These centers are usually staffed with Soviet instructors for five or six years, until teaching positions can be filled with Soviet-trained professionals.

Most of the 4,250 trainees who went to the USSR in 1976 were from Near East and South Asian countries that have major plants scheduled to begin operations before the required number of specialists can be trained domestically (see table 9).

Although the USSR does not charge tuition for training, LDCs must pay about \$250 a month per person for room and board, plus a monthly allowance and all transportation costs. On an annual basis, these charges are more than double the average cost (about \$1,000 per student place) that LDCs pay the USSR to install local training facilities.

Academic Training

In 1976 the USSR and East European countries expanded their already substantial academic training effort for nationals of the Third World. The 7,900 new enrollees increased the Third World student population in Communist countries to a record 36,450 (see table 10). This represents a one-third increase in LDC student places in USSR academic institutions and a doubling of East European Third-World student capacity in the past three years. Scholarship awards to Africans accounted for half of the total program, down from 60 percent in earlier years.

The 20-year old academic program remained the most concessionary Communist aid effort in 1976. Soviet scholarships provide all-expense training, including room, board, living expenses, and transportation. In 1976 the program contributed the equivalent of \$145 million of grant assistance, according to a Soviet cost formula of \$6,500 per student annually. The cost per student in East European countries ranges from \$4,000 to \$6,000 annually; many of the students, however, have traveled under private auspices or have been financed by their home governments.

By the end of the year, an estimated 48,500 students had returned from Soviet and East European training. Their reception has been mixed. In many countries, Communist diploma holders are isolated by deeply entrenched Western influences, especially since most LDCs accept Western patterns of education and professional success as ideals. Nevertheless, most Communist-trained students, with the exception of doctors, appear to be trained adequately for the jobs they perform and are moving into responsible positions, especially in countries with endemic skilled manpower shortages. In Rwanda, Soviet university graduates provide bureaucrats for the economic ministries. Even in anti-Communist states such as Bahrain and Oman, Soviet-trained personnel have reached ministerial-level positions. We believe this trend will accelerate as broadening development efforts in the Third World require ever larger numbers of skilled personnel.

APPENDIX A
COUNTRIES SECTIONS

AFRICA

Summary

Moscow's heavy military support to the victorious MPLA in Angola, which captured headlines in 1975, and Soviet help to established governments and insurgent groups throughout sub-Saharan Africa confirmed Moscow's new commitment to the region.

Hoping to capitalize on success in Angola and to expand influence in southern Africa, the Soviets boosted military deliveries to sub-Saharan Africa in 1976 by more than \$50 million over the 1975 record. The USSR shipped \$190 million of equipment to Angola alone to replace wartime losses and to consolidate the new government's position against scattered rebel forces.

In its dealings with traditional client states, Moscow concentrated on maintaining access to strategic facilities (ports in Somalia and Guinea and aircraft landing rights in Congo and Mali) and building the momentum of insurgent group activities in southern Africa. Buoyed by the victory in Angola, black nationalist forces operating against Rhodesia and Namibia hardened their stance against near-term peaceful settlement, and threats of open hostilities over control of the French Territory of Afars and Issas escalated as the date of French withdrawal drew nearer. Destablizing effects of the Soviet arms trade also were evident in heightened tensions between Sudan and Libya and between Somalia and Ethiopia. Meanwhile, Western-oriented African governments such as Liberia, Ivory Coast, and Senegal expressed alarm about the growth of Soviet influence on the continent. Some Western-oriented states, however, moved to upgrade ties with Communist states.

An influx of Communist personnel into former Portuguese colonies was spearheaded by 550 East European administrative and service personnel who replaced fleeing Western experts. Cubans continued to move into southern Africa in increasing numbers to train guerrillas and local militia personnel and in some cases to assist in economic development. China was less active in the political arena than in the past several years, although it signed its first economic agreements with three small African nations (Botswana, the Comoro Islands, and Sao Tome and Principe) and continued to provide training and support to insurgent groups. Peking maintained its low-key economic programs in Africa and in 1976 made new commitments of about \$75 million, all to old recipients.

Moscow's responsiveness to economic and military needs in Arab Africa was reaffirmed in 1976 by arms deliveries of \$750 million to Algeria and Libya. For the second consecutive year,

Libya—Moscow's largest cash customer—received more Soviet arms than any other Third World client. Shipments to Algeria stirred fears in the Maghreb of a possible Algerian attack on Moroccan and Mauritanian troops in western Sahara. The USSR also made a \$290-million commitment to Algiers for an aluminum plant—a record for that country—which together with \$55 million to Tunisia absorbed more than 90 percent of Moscow's 1976 African economic commitments. W593C2

Most of the rest of Soviet economic aid went to Mozambique, Angola, and Guinea-Bissau, where Moscow sought to consolidate its presence. Despite somewhat greater interest in economic assistance to sub-Saharan Africa, the \$60-million pledge to Somalia in 1975 was Moscow's largest to the area since 1969, and its tropical African aid program still accounts for less than 10 percent of the \$12.1-billion global Soviet commitment.

Algeria

Soviet-Algerian relations were strengthened in 1976 by Moscow's support for Algeria's position on western Sahara, and Algerian cooperation in making the Algiers airport available during the Angola crisis. Nonetheless, reports indicate that the USSR is demanding cash for Algeria's arms purchases, as it has recently from other prized customers. Libya is reported to have transferred several hundred million dollars of cash late in 1975 or early 1976 to Algiers to pay for Soviet arms.

Economic Relations

Although Algeria's commercial and economic ties remained more closely linked to the West, in April Algiers accepted a record-size credit from Moscow, its first major new Soviet assistance since 1971. The \$290 million in 10-year, 4-percent credits were allocated for an aluminum plant at M'Sila, on which design work had already begun at the end of the year. The 140,000-ton plant will also include a 600-MW powerplant, training facilities, and possibly a rail line from the port of Bejaia to the construction site. Negotiations began almost immediately on plans to double the plant's capacity when the first stage is completed in 1982.

An Algerian-Soviet joint commission, which met in January, also suggested consideration of Soviet assistance for a heavy machinery and electrical complex, a dam, a steel mill in western Algeria, and a railroad. Late in the year Moscow announced that it was studying possible construction of a number of oil refineries.

Until now, Moscow's most important contribution to Algeria's economic development has been \$300 million in credits for a 2-million-ton steel mill at Annaba. The 1978 target for capacity operations at the plant may not be met because work on a blast furnace and coke batteries fell slightly behind schedule in 1976.

Although East European countries made no new economic aid commitments to Algeria in 1976, activities under the \$500-million worth of development assistance pledged Algeria in the past six years accelerated.

- East Germany began surveys for a foundry complex to be built at Tiaret with \$90 million in East German credits;

East Germany and Czechoslovakia inaugurated construction of a joint \$67 million pump plant at Medea;

Bulgaria will expand the 115,000 hectares of land already reclaimed by its contractors with waters from a major dam it is building at Mitdja;

Hungary completed a technical school in Oran, and Poland agreed to establish 10 state farms;

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Small Soviet economic aid allocations to Angola were outshone by East Germany's \$10 million donation of relief assistance. Moscow contributed half a million dollars of medical supplies and equipment and agreed to 10-year credits for training centers, geological exploration, and agricultural development, the total value of which is not expected to exceed \$10 million. Bulgaria and Romania are studying agricultural and industrial projects, for which they may extend credits.

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GHANA

Soviet-Ghanian relations moved somewhat closer in 1976 with (1) the first exchange of military attaches in more than a decade, (2) resumption of several Nkrumah-era Soviet aid projects, and (3) agreement on settling Ghana's outstanding debt to the USSR.

Some Improvement in Military Relations

Faced with problems in maintaining the effectiveness of its military and under pressure to update inventories, Ghana sent an arms-purchasing mission to Moscow to discuss possible acquisition of tanks, artillery, surface-to-air missiles, engineering equipment and training, but contracts were concluded. Delegation stopovers in Eastern Europe resulted in a small Czech arms sale and a \$6-million Bulgarian agreement to provide small arms and ammunition worth several million dollars.

Economic Relations

In October, Ghana and the USSR agreed to abandon the bilateral clearing arrangements established in 1961 in favor of hard-currency payments. The USSR agreed to resume activity at a concrete panel plant, a gold refinery, and a reactor for which Soviet equipment for these projects was provided before 1966. Moscow may now agree to reinstate an estimated \$60 million in expired credits for new projects.

China's small, but effective, agricultural program is dominated by the \$13-million Afife irrigation project, which is being built under \$42 million in reactivated credits. China also signed a commercial agreement with a private Ghanaian firm to construct a textile plant.

Hungary, having completed a three-year study of Ghana's bauxite reserves, is studying participation in aluminum industry development. Romania agreed to study possible assistance for a brick and tile plant, a cement factory, road construction, and urban development, possibly under an old \$8-million credit.

GUINEA

Soviet interest continues high in Guinea. Conakry continued to give Moscow access to its airfields, oil storage, and naval facilities to support the Soviet's growing military operation in southern Africa, in return for Soviet military deliveries totaled almost \$10 million last year.

Cuba maintained the largest foreign military presence in Guinea (over 300, compared with a total of 75 Soviets and East Europeans). Most of the Cubans worked on military construction, although about 75 were assigned to the national militia, as presidential bodyguards, and to Guinea's air force.

Economic

Friction over the price Moscow pays Guinea for bauxite persisted throughout the year and after preliminary agreement in August, negotiations were resumed in December. Moscow removed a major source of dissension, however, by agreeing to pay the Guinean export tax on Kindia bauxite—almost \$12 million due on past imports. The outstanding total will be repaid with Soviet equipment, but Guinea may credit future tax payments toward reducing its debts to the USSR. Some 90 percent of Kindia's annual production of 2.5 million tons goes to the USSR, half as repayments on a \$92 million construction loan for the Kindia facility. Meanwhile the USSR continues a small program of technical assistance for agriculture, port development and geological surveys.

Although work on Chinese projects was not disrupted, Peking's political relations with Guinea have not recovered from the falling out over support of the Soviet role in Angola. Two fishing trawlers were delivered in July under a 1972 Chinese credit. Technical assistance continued for agriculture, port development, and a match factory built with Chinese assistance.

Guinea maintained a low profile in its relations with East European countries. Trade with these countries continued the precipitous decline that began in 1974 and was aggravated by Conakry's cancellation of bilateral clearing agreements with them in 1975. Romania agreed to study gold, uranium, and iron ore reserves in Guinea. It did not, however, agree to finance 3,300 tractors (valued at \$20 million) under an \$80 million 1974 credit, nor to provide assistance for a petroleum refinery that Bucharest considered to be of doubtful viability.

LIBYA

Libyan President Qadhafi's December visit to Moscow promoted a further warming of the Soviet-Libyan relationship. While Moscow views the Libyan connection as a means of putting pressure on Egypt, it also values Libya as an important cash customer. Discussion of further Soviet arms deliveries topped the agenda at the December meeting, and Libya's continuing requirements for technical assistance and training received priority treatment. East European contractors, with 12,850 personnel in the country, accelerated development activity in 1976.

A Major Soviet Arms Client

With arms deliveries totaling \$550 million in 1976, Moscow worked off about half of its 1974 \$1.2 billion agreement with Libya. Receipts in 1976 included MIG-23 fighters, TU-22 medium bombers, surface-to-air and SCUD missile systems, naval craft, and an array of modern ground equipment. In November, Tripoli joined the elite group of Soviet military clients (Iraq, Somalia, Algeria, Cuba, and India) to receive the OSA II class guided-missile patrol boat. East European deliveries accounted for an additional \$25 million of equipment.

Qadhafi has made the Libyan armed forces the most heavily equipped in North Africa. Although Libya has already received more arms than its military can absorb, substantial amounts remain to be delivered under the 1974 agreement. The rapid growth in Libya's arms inventory has not been matched by an equivalent advance in the number or capability of its personnel. The undermanned, poorly trained Libyan military remains ineffective as a combat force and is unable to maintain its modern weaponry. Libyan purchases have given Moscow a windfall—cash payments at full list price. Moreover, at least another \$15 million accrues to Moscow annually for the services of its 800 technicians stationed in Libya. About 200 Libyans also are training in the USSR.

Economic Relations on the Upswing

During President Qadhafi's Moscow trip, the USSR agreed to construct \$1-billion worth of projects in Libya, probably all for cash. These include a nuclear power station (a project that has been under discussion for several years), a 600-km gas pipeline from Brega to Misuratah to supply a proposed 1.7-million-ton iron and steel complex, a unified power grid, and three major training centers; the USSR also agreed to formulate a 25-year natural gas development plan. The USSR had agreed previously to construct an atomic research center near Tripoli (on which work had begun by year's end) and had signed a \$22-million contract to install two powerlines between Tripoli and outlying agricultural areas.

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Soviet Technical Presence Will Increase

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Present plans call for a sharp increase in the Russian technical presence in Libya, which previously was limited to about 75 oil advisers and doctors. Moscow expects to bring in hundreds of personnel to work on the atomic research center alone. While Qadhafi would prefer Libyan technicians in strategic sectors of the economy, he believes that he can isolate the Soviets and minimize their ideological influence. Qadhafi's fears of Soviet subversion have been allayed to some extent by two years of a large Russian military presence.

Eastern Europe: Economic Presence Doubles

East European countries continued to support Moscow's military sales program in Libya with deliveries valued at more than \$25 million. Their major interest, however, was in commercial activities and the supply of technical personnel. Libya's cash payments for East European equipment and services makes such contracts exceedingly attractive.

Libya has hired large numbers of East European technicians over the past decade. In 1976 their number rose to about 11,600, the largest work contingent in any LDC, employed on at least half a billion dollars worth of development projects. About 5,000 were Poles, employed on road construction, port work, and agricultural development projects. A similar number of Romanians continued work on housing construction, oil and petrochemical development, roadbuilding, and animal husbandry. Hungarians made engineering studies for two railroads, while Czechoslovakia completed a geological study of coastal areas. Bulgaria worked off \$100 million in outstanding contracts for petroleum exploration and development. East Germany joined the roster of East Europeans in Libya with an October contract to construct electric power and transportation projects.

Bulgaria and the USSR may have signed contracts in 1976 to take Libyan oil in 1977. Existing oil barter agreements have been largely inoperative since 1973, because East European countries have been unwilling to take high-priced Libyan oil.

MOROCCO

Morocco's concern that Soviet weaponry provided Algeria might be used against it in western Sahara clouded the Rabat-Moscow relationship in 1976. Soviet military shipments were temporarily suspended, but late in the year talks were reopened on possible delivery of OSA class patrol boats and STYX missiles under a 1975 \$34-million agreement. China's neutrality in the Saharan dispute, however, enhanced its standing. Rabat signed new economic accords with Czechoslovakia and Poland and received spare parts and munitions from the Czechs.

Chill in Economic Relations

King Hassan's refusal to negotiate major new economic projects with the Soviets especially affected the Meskala phosphate project, for which a preliminary agreement had been drafted in 1975. At the end of the year, Moscow was still pressing for finalization of the

\$5 billion, 20-year agreement, the largest the USSR has ever negotiated with a Third World country. Nor was a Soviet offer to construct a \$235 million powerplant at Mohammedia acted on. Nonetheless, it was agreed that Moscow should continue geological prospecting and the annual oil-for-citrus barter agreement, which called for a 40-percent increase in Soviet oil shipments in 1976, was renewed. WSBDS

Rabat's relations with East European countries reflected the stability of their trade relationships. Poland, one of Morocco's major phosphate markets and its largest Communist trading partner, signed a protocol to continue assistance to the chemical and transportation sectors. Czechoslovakia provided a line of credit of unknown value in May for complete plants and possibly technical services. Power, sugar, cement, and textile plants were mentioned as possibilities for Czech financing. Romania began port development at Nador under a 1976 agreement, possibly a commercial accord, and Bucharest and Rabat agreed to joint ventures in copper development.

An estimated 975 East European personnel were working under contracts in Morocco during the year. Bulgaria provided 300 doctors, teachers, veterinarians, and agricultural personnel and Romania 400 technicians for development work. Chinese technicians began preliminary work on a sports stadium near Rabat, China's only aid project in Morocco, being built under a \$35-million 1975 credit.

MOZAMBIQUE

Following a decade of Communist political and financial support, the revolutionary government of Mozambique has continued to rely heavily on Communist aid since independence in mid-1975. Although the Communists were slow to provide financial assistance, they sent some 625 nonmilitary technicians to fill the technical gap left by the departure of Western specialists. The 250 Chinese and North Koreans worked mainly in agriculture, 100 Cubans surveyed Mozambique's sugar estates, and 275 Soviet and East Europeans were employed as doctors, teachers, agricultural technicians, and administrators.

The USSR provided further guarantees of reconstruction aid under a June agreement. Contracts for iron ore, coal, and bauxite surveys were signed, and Moscow agreed to dispatch irrigation experts, harbor pilots, and transportation and cement experts.

Military

Communist countries increased their commitments of men and material following Mozambican President Machel's call for help in defending Mozambique against Rhodesian cross-border operations. About \$10 million worth of Communist small arms, ammunition, antiaircraft artillery, and armor, a sizeable share consigned to Rhodesian insurgents, was delivered. New supply agreements were signed with the USSR, but their values are not known.

The influx of Communist personnel was heavy throughout the year, allowing Mozambique the services of about 500 military personnel. Most of these advisers came from Cuba to train the regular army and the militia.

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SOMALIA

Soviet military and economic support and a large contingent of Soviet personnel have given Moscow an important foothold in Somalia and the use of a naval base and airfield, and port facilities on the Red Sea.

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New Military Agreements in 1976

A \$20-million Soviet arms agreement will expand Somalia's naval inventory by 4 MOL-class patrol boats. The new accord brought Moscow's total military commitment to Somalia—the largest Soviet arms client in Black Africa—to \$306 million. The USSR repeated the high delivery levels of 1975, with shipments valued at \$50 million in 1976.

Moscow's heavy supply operation in the past several years and its continuing heavy technical assistance (at least 1,000), spread through all levels of the military, have enabled Somalia to develop one of the most formidable fighting force in sub-Saharan Africa. Many of the personnel are stationed at the port of Berbera, where the USSR has a naval missile-handling facility, repair facilities, and a drydock.

Economic Relations: A Smaller Effort

Confident that the momentum of the military supply program and 1975's record \$60-million commitment for economic development would sustain economic relations, Moscow was not responsive to Somali requests for development projects. Its only new aid to Somalia in 1976 was a \$4-million gift of corn.

The most important project underway is the Giuba dam, which will generate 5,000 kw of electric power and irrigate 8,300 hectares of land when completed. The project, however, will never live up to its advance billing as "Somalia's Aswan Dam," with only \$19 million allocated to it and work continuing at a snail's pace. The 1,000 Soviet economic technicians in Somalia provide medical and ministerial advisory services, give assistance to the fishing industry, install oil storage tanks at Somali ports, and furnish support to problem-ridden, Soviet-built food processing plants. Soviet personnel are also helping settle 130,000 nomad refugees from drought-stricken areas into fishing villages and agricultural settlements along the coast. Moscow is providing this assistance under a \$14-million grant portion of the 1975 agreement.

The USSR also contracted to provide \$9 million of its 1975 credit for mineral prospecting, including \$4 million for commodities to finance local costs. East European countries and Cuba were increasingly visible in supporting Soviet objectives. Bulgaria, Romania, and possibly Hungary signed agreements for possible project assistance to Somalia. Bulgaria already is providing assistance for tin mining and East Germany maintains the largest East European presence through a police training program. Arab states pledged \$265 million in development assistance to Mogadiscio in 1976, in hopes of weaning Somalia away from the Soviets.

Meanwhile, China continued the unobtrusive support that has won it praise from Somali officials. In June, a 360-km section of the Belet Uen-Burao Road, built under a 1971 credit, was opened to traffic. The 970-km road project will have drawn \$67 million from Chinese credits when it is completed in 1978. In 1976, China also completed a hospital and continued work on a sports complex under the 1971 credit.

SUDAN

The thaw in Soviet-Sudanese relations of late 1975 was reversed in July when Libyan-supported dissidents, using Soviet arms, tried to overthrow the Numayri regime. The abortive coup followed Moscow's gift of MIG jet fighters—the first Soviet aircraft to Sudan since the 1971 coup attempt in which the USSR was also implicated. Sudan is now pushing ahead with plans to modernize its military establishment with Western arms financed by Saudi Arabia.

Khartoum demonstrated its concern over future Soviet influence by refusing to allow some students to go to the USSR for training. Khartoum and Moscow did, however, sign a contract in October to continue a Soviet manganese and iron ore survey under a small 1969 credit that had already financed other mineral surveys.

China, whose economic assistance program has earned it the highest marks among Communist donors, accelerated activity under \$82 million in credits extended in the early 1970s. Early in the year, Sudan announced that Chinese geologists had discovered oil in commercial quantities. The Chinese also completed a section of the Wad Medani-Gedaref Highway, which was opened to traffic. In May a textile mill and conference hall in Khartoum were inaugurated.

TANZANIA

Tanzania continued to shift its dependence for military supplies from China to the USSR. China scrambled to maintain its waning influence with deliveries of jet trainers, MIG-19 engines, small arms, and antiaircraft guns. The USSR supplied SA-3 missiles to Dar es Salaam—the first provided a sub-Saharan African country. A part of the Chinese and Soviet deliveries were for insurgent groups operating out of Tanzania. Communist military advisers in Tanzania also helped train such groups. Although the number of Chinese fell significantly during the year, the Soviet presence was augmented and supported by the Cubans.

The USSR's military presence in Tanzania, which accelerated in 1974 with an air defense deal, apparently stimulated interest in economic cooperation—a marginal effort until now. The USSR signed a July agreement for a \$24-million hydropower project at Kiwira Falls, for which at least \$10 million will be drawn from a 1966 Soviet credit.

Wrapping up five years of construction activity on the Tan-Zam railroad, China handed the system over to the Tan-Zam Railroad Authority in July and announced that it would absorb \$55 million in cost overruns. This brought Peking's contribution to the project to \$475 million. With about a fourth of Tan-Zam's 20,000-ton-a-day scheduled freight capacity currently being carried, the railroad is easing transportation bottlenecks in Zambia caused by closure of routes through Angola and Rhodesia. China allowed 1,000 railroad technicians to

remain in Tanzania for another two years to assist in operations, maintenance, and training. Some Chinese that had worked on the railroad were shifted to iron and coal development work and to building a spur line. Meanwhile, Zanzibar is phasing out Chinese assistance, until recently its most active aid program, and turning to non-Communist sources for assistance to light industry. W593E2

Other African Countries

Benin joined the ranks of African recipients of Communist military aid in 1976. Early in the year, the USSR promised Benin delivery of two YAK-40 jet transports presumably for services rendered the Soviets in the airlift to Angola and a second Soviet agreement provided small arms and ammunition at half the market price. North Korea and Czechoslovakia also supplied small amounts of infantry weapons and ammunition.

Moscow signed protocols to implement a \$5.3-million credit, apparently extended in 1974, allocating \$2 million to geological research. Other projects under study include establishment of a bus system and fisheries development. China completed a rice project, which it took over from Taiwan in 1973, and began work on a sports complex and an experimental farm under a 1972 \$44 million credit. Romania signed an economic agreement, but the terms are not known.

Botswana, in a major policy switch, concluded its first Communist economic accord in 1976. A team of Chinese technicians, which arrived in September to assess Botswana's development needs, will be followed by commitments to specific projects. Credits for agriculture and light industry probably will be made available.

The *Cape Verde Islands* signed a general economic and technical cooperation agreement with the USSR in November, its first with a Communist country.

The *Central African Empire's* resumption of diplomatic relations with China in August was followed by agreement to reinstate economic Peking's economic program will initially involve agricultural and medical technical assistance projects that Taiwan had been operating. Romania, the only Communist country with ongoing projects, increased its joint participation in lumber, mining, and cotton ventures by \$20 million. The USSR's large technical service program (with 165 teachers, doctors, and ministry-level advisers) was criticized for not being expanded.

Congo's role as Moscow's principal staging area for Angola brought Brazzaville and Moscow closer together in 1976. Early in the year Congo received its first MIG fighters from the USSR, probably part of an October-1975 arms accord. In June, the USSR signed an agreement reportedly for additional MIGs, and air defense weapons. Despite closer ties with Moscow, Brazzaville is being careful not to alienate the Chinese who have provided about \$10 million of military aid and \$70 million of economic aid commitments.

Chad signed its second military agreement with the Soviet Union in two years, a \$5-million accord for ground forces equipment. Much of the equipment was received by the end of the year and included 132-mm rocket launchers, personnel carriers, mortars, artillery, and ammunition.

The *Comoro Islands* signed an agreement for economic and technical cooperation with China in June, making Peking the first Communist nation to establish formal economic ties with the island nation. The visit of a Comoran trade delegation was followed by a Comoro visit to Peking in September to arrange for commodity imports to generate local funds for projects under the agreement. W59323

In *Equatorial Guinea*, the number of Chinese is expected to increase when construction begins on a power station and transmission lines that China agreed in May to build under a \$24-million 1971 credit.

Moscow extended its first economic assistance to *Guinea-Bissau* in September, a \$13 million, 12-year interest-free credit, allocated partly to bauxite development. The agreement also provides \$3 million for commodities. The USSR had previously given Guinea-Bissau a \$500,000 fishing trawler as a gift.

The *Ivory Coast*, moving toward greater balance in international relationships, signed its first Communist economic cooperation agreement with Romania in June. The general accord calls for cooperation in agriculture, forestry, mining, and other industries, possibly on a joint venture basis. An Ivorian trade delegation visited several East European countries and the USSR at midyear.

Kenya has shown receptivity to Chinese offers and is studying a Chinese proposal to supply under UNDevelopment Program auspices equipment and technical expertise for textile plants, a rice mill, a brick plant, and a small hydroelectric plant.

Pro-Western *Liberia* moved gradually to enhance its African and nonaligned credentials by upgrading relations with Hungary and Cuba. Monrovia also planned to open discussions on establishing diplomatic relations with the PRC while trying to obtain Taiwan's guarantee that it would continue its \$2 million to 3 million annual funding of agricultural and veterinary projects. A Romanian joint venture for rubber processing—Liberia's first Communist project—was completed and similar joint ventures for a tire plant and agriculture were being planned. A 1974 Soviet proposal to build a port and technical school has not been acted on.

Madagascar's radical socialist government still relies on Western suppliers for most of its arms, but new Communist economic and military commitments in 1976 helped move it closer to Communist countries. China reinforced its position as Madagascar's largest aid donor with a \$21-million, year credit for 30,000 tons of rice and with contracts under its \$55 million 1975 commitment for a sugar refinery, a farm implements plants, a porcelain factory, a model farm, and improvements to a 150-km road for all-weather travel between Tananarive and the port of Tamatave. In addition to a Soviet gift of a MI-8 helicopter and a \$1-million agreement for small arms and ammunition, Moscow moved to provide personnel and equipment for a merchant marine school, for the University of Tananarive, and for geological surveys agreed to under a December 1975 accord. Soviet technical personnel also studied possible 10-year credits for prefabricated housing, a cement plant, a flour mill, a hydropower plant and irrigation works, a cotton plantation, and three university centers. Romania sent technicians to operate Madagascar's only oil refinery at Tamatave, after its surprise

nationalization in June. Romania's bid for participation in a chemical fertilizer plant at the Tamatave refinery, however, was not accepted. Madagascar asked Hungary to draw up plans for bauxite and alumina development. WS93E4

Mali received sophisticated aircraft for the first time, reflecting Soviet interest in maintaining access to Mali's military support facilities for its southern African ventures. Previously MIG-17s had been the most advanced aircraft in Mali's inventory. Following the visit of Mali's Minister of Defense to Moscow late in August, the USSR airlifted MIG-21 fighters. Moscow had already trained Malians to support and operate the planes. Although the USSR and China have each delivered about the same amount of economic aid (\$65 million) over the past 15 years, China has played a more active role in Mali's economic development, especially in agriculture. In 1976, China agreed to build a third sugar mill at Sikasso and to expand a recently completed Chinese-built rice mill at Sevare. Peking is also continuing as \$8.8 million expansion of the Chinese-built textile mill at Segou and has installed new equipment for Radio Mali. Moscow's only active project is the gold mine at Kalana, for which the USSR has provided \$17 million in credits.

A Nigerian delegation went to Moscow in December to resume negotiations on Soviet participation in the Ajaokuta steel mill, which was opened to international bidding earlier in the year because of the inability of the two sides to reach agreement. Nigeria awarded Moscow a \$137-million contract to act as general contractor for 800 km of oil pipeline. Moscow already has solicited Western bids for design work and pumping stations; about 700 Soviet personnel will direct Nigerian subcontractors. Poland agreed to a four-month geological survey, which may draw on a \$24-million 1971 credit. In 1976 some 100 Chinese personnel provided technical assistance to rice projects, water-well drilling and for a small industrial training center. This activity is governed by a 1974 technical assistance agreement, provisions of which were never announced.

Rwanda accepted its first military aid from China in 1976—\$1 million worth of small arms—all delivered by year end. About 300 Chinese were working in Rwanda on economic aid projects, funded by a 1972 \$22-million credit. They completed most of the \$16 million Kigali-Rusomo road and will finish the remainder early in 1977. Chinese technicians also worked on developing rice strains and turned over to Rwandan management a rice project at Kigali, which was completed in 1976. Moscow has concentrated on a scholarship program, and some of the graduates have gone into Rwanda's finance, agricultural, and planning ministries. Work has not yet started on the hospital that Moscow is scheduled to build at Bujumba.

Sao Tome and Principe signed a general agreement on economic and technical cooperation with the USSR in October, similar to one signed last year with China. No activity was noted under either agreement. WS93ES

Senegal, calling on Communist nations for more support to LDC development programs, concluded new agreements with Poland and Romania in 1976. Poland agreed to provide \$35 million in fisheries assistance over a 10-year period, \$17 million of which will be allocated for trawlers, refrigerator boats, and port and processing equipment. Romania's agreement was for cooperation in mining, industry, and rural development projects, but no credits are known to have been provided. China, still the only active Communist donor in Senegal, continued work on dams, rice projects, and an athletic stadium under a 1973 \$53-million credit.

Sierra Leone signed its first fisheries agreement with the USSR early in 1976. Moscow will provide research ships and trawlers as well as training. Joint ventures for fish processing industries may be arranged later. China completed the Mangeh Bridge and a stadium at Freetown under a 1971 \$40-million credit, and turned over eight agricultural stations it has established in the country.

Tunisia at midyear received its first military equipment from a Communist country under a 1975 Chinese accord for artillery light-machine guns, rifles, antitank weapons, and possibly two coastal patrol boats. Earlier in the year, the USSR promised Tunis its first new economic aid in almost a decade. The \$55-million commitment will be used for dam and irrigation projects and expansion of the Soviet-built technical institute in Tunis. Commodity shipments allowed under the credit should facilitate construction by generating local funds. Czechoslovakia also extended new 10-year credits totaling \$30 million for equipment purchases.

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Upper Volta took over the Kou Valley rice project from China early in 1976. The 250-hectare project, for which Peking assumed responsibility from the Republic of China in 1973, had been financed under a \$48-million credit. Late in the year, China agreed to build a cement factory and a road under credits remaining from the 1973 agreement.

Zaire and the USSR signed their first general economic and technical assistance agreement in December, as Moscow moved to repair the damage to their relationship created by differences over Angola. Details of the agreement were not announced. Romania, Zaire's only active East European development partner, established a new joint company in 1976 to operate agricultural projects.

Zambia shared equally with Tanzania in the \$55 million of Chinese aid to cover cost overruns on the Tan-Zam railroad. With railway construction completed, most of the large contingent of Chinese workers will probably work on rural development schemes and on the Serenje-Samtua road, being constructed under a 1974 agreement. Little other Communist activity took place in Zambia in 1976. The USSR continued work on diesel powerplants under a 1967 credit. Czechoslovakia completed geological surveys in northern Zambia and continued copper prospecting around Lusaka. Romanian development of Zambian mines under a \$50-million 1972 agreement was slow, presumably because of depressed world demand and low prices for metals and minerals. Romania also formed a small joint venture with a government company to develop copper. Zambia concluded a single military agreement with a Communist supplier during the year, a small accord with Moscow for tanks and armored vehicles. The bulk of the equipment was delivered in 1976.

China remained Zaire's largest Communist aid donor. Peking accelerated work on projects under a \$100-million aid package. Preliminary work on a sports stadium proceeded, and technical assistance continued at several experimental farms, a sugar plantation and refinery, and a hospital. Construction of the 3 million People's Palace, being provided as a grant, went forward. China's influence as a development model remained strong, even though Zaire's deteriorating economic situation forced the government to rescind some of the more radical "Chinese-like" nationalization measures instituted after Mobutu's 1974 trip to China. China became Zaire's principal Communist arms supplier with \$15 million worth of tanks, artillery, support equipment, ammunition, and naval vessels, but Communist military supplies still comprise less than 10 percent of Zaire's total annual arms receipts.

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EAST ASIA

~~Communist~~ East Asian contacts expanded in 1976, as both the USSR and China pursued broader commercial ties with businessmen in the region and Moscow sought new port facilities to support its fishing fleet.

Tonga and Papua New Guinea were among the island nations that received Soviet offers to improve port and fishing facilities in return for services to the Soviet fleet. Western Samoa signed an economic assistance agreement with China that eventually may provide credits.

Moscow's most dramatic overture was a \$300-million offer to Indonesia for a 600,000-ton alumina plant on Bintan island. The 10-year credit would include a three-year grace period and carry 7-percent interest. The plant would supply the Asahan aluminum smelter, being constructed by the Japanese, and still allow 150,000 tons annually for repayment of the Soviet loan. Moscow also offered to construct associated two powerplants at a cost of \$120 million.

Malaysia fended off Soviet development offers because of concern over possible subversion by Soviet technicians. Malaysia's demands for lenient terms for the \$80 million Tembeling dam project at Pahang closed discussions on the project. Kuala Lumpur also turned down a Soviet offer of an auto assembly plant. The fate of a Soviet bid on a 240-MW powerplants is not known.

Establishment of Soviet-Philippine diplomatic relations and the signing of Manila's first trade agreement with Moscow had little effect on their economic relations in 1976. The trade agreement calls for settlement in convertible currency and mentions possible Soviet credits to be negotiated separately. Moscow's offer to construct storage facilities for a new joint fishing venture in return for fishing rights was ignored, as was its request to construct bunkering facilities near Manila. Hard bargaining with Romania produced a \$5 million credit for trucks and other vehicles, and China continued oil sales under a 1974, five-year agreement. A Chinese-Philippine committee was formed to help redress the trade imbalance which in 1975 was more than \$20 million in China's favor.

Singapore's first joint fishing company with the Soviets (Marisco) started operations in 1976. The company plans to build processing and storage facilities at Jurong to accommodate the Soviet fleet's Southeast Asian catch. The new facilities would make Singapore the largest fish processor in the area. Singapore announced that it would abolish the service charge on all Chinese imports and proposed an agreement to put their trade on an official basis for the first time. Singapore hopes that an increase in Chinese orders will stimulate Singapore's depressed shipbuilding industry. Singapore also signed an agreement with Romania for a joint commission to study increased economic exchanges.

LATIN AMERICA

W 593 F 2

Summary

Moscow moved to exploit the Latin American arms market with offers in 1976 to Argentina, Colombia, Ecuador, and Venezuela. While none of these deals was consummated during the year, the Soviets made important inroads into Peru's market to become Lima's principal arms supplier. A \$325-million order by the Peruvian air force—Moscow's first sale of aircraft to Lima—pushed Soviet sales to its only Latin American customer (outside of Cuba) to almost \$550 million.

The Communist economic program in Latin America retained its commercial thrust as a means of cutting recent billion-dollar trade deficits with the area. Last year, the Soviet - Latin American deficit alone topped \$850 million. Communist countries have served notice that failure to redress the huge imbalances of recent years could force Communist grain and food buyers into other markets. As a followup, they offered \$300 million in trade credits to Latin American raw materials suppliers in 1976. Some \$175 million of new agreements were signed, despite Latin America's traditional preference for Western machinery and equipment that has left \$1.5 billion of previous Communist credits unspent. Communist officials hope that credits will be drawn on as the deficits of major Latin American traders persist with the rest of the world.

Open-ended trade credits, for which limits and terms have not been set, were the only kind of Communist credits provided in 1976.

- Peru signed an agreement with the USSR that could result in commitments to finance up to a third of Peru's \$300-million Olmos hydroelectric project.
- Mexico signed general economic agreements with all European Communist states except Hungary and Bulgaria. The agreements included Polish aid for coal development.
- Bolivia and Peru also were offered Polish aid for coal development.
- Chile and Peru promised aid for their petroleum industries by Romania.

Argentina

Trade continued to dominate Argentine-Communist relations in 1976 as Soviet trade went farther into the red with larger purchases of Argentine meat and grain. East European countries also ran huge deficits with Argentina because of grain purchases required to offset the effects of the European drought. As part of a Soviet drive to balance its trade accounts, Moscow offered assistance to fisheries and coal mining, and submitted a bid to participate in the \$2-billion Parana Medio hydroelectric project. These were turned down as Argentina's new, more conservative government began to question the wisdom of expanding the already substantial Soviet involvement in Argentina's electric power development plans. The government also resisted Soviet pressure to expand imports through the use of open-ended credits extended in 1974.

Work progressed, however, at the Salto Grande and Costanera plants under contracts signed the year before. These together with contracts already signed for power generators at San Nicolas and Lujan de Cuyo bring the total value of contracts under the 1974 open-ended credit to \$175 million. The go-slow attitude also affected East European economic relations, with continued deliveries of Romanian equipment to the state petroleum organization the only aid activity.

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Colombia

Offers of Communist assistance to Colombia approached the \$200 million mark in 1976, following Bogota's announcement that it would welcome association with the Council for Mutual Economic Cooperation (CEMA). Until then Colombia had received less than \$25 million in credits from this group of countries.

Moscow made the largest offer—assistance for oil development, transportation, and public health as well as a \$140-million equipment credit for the \$400-million Alto Sinu power project. The 10-year credits probably would be provided under a March-1975 agreement, on which no credit limit had been placed.

East European activity was spearheaded by a \$50-million East German equipment credit, apparently negotiated late in 1975, and by Polish and Romanian general economic cooperation agreements. Financial details on the latter agreements were not announced. The September pact with Warsaw calls for assistance in building a sulfuric acid plant, sugar mills, and textile plants. The Romanian agreement, reached after two years of negotiations, calls for joint oil field development and coal exploration. Colombia contracted to buy \$21 million worth of buses from Hungary. Czechoslovakia agreed to extend the period for drawing on a \$6-million 1971 credit.

Peru

The Soviets are moving to improve their position in Peru, where they already have a substantial investment. Despite the shift of the Morales Bermudez government away from a leftist revolutionary line, Moscow signed major new military and economic agreements in 1976. Military agreements totaling \$325 million in 1976 gave Peru big-ten-rank among Soviet arms clients and gave Moscow the ranking supplier role in Lima's defense establishment.

First Air Force Purchase

Lima's order for 36 Soviet supersonic fighter-bombers (SU-22s)—Peru's largest military agreement with Moscow and its first order for jet aircraft from the USSR—raises Peru's total arms purchases from the USSR to at least \$535 million, all since March 1973.

Before 1976 Lima confined its arms purchases in the Soviet Union to sophisticated land armaments and helicopters for the army. The navy continued to reject Soviet offers and is reported to have turned down missile boats and short-haul aircraft.

Lima's aircraft purchases were concluded despite considerable concern over increasing Soviet involvement in Lima's defense establishment. The decision was affected by favorable terms and fast delivery schedules. Lima also may have wished to signal its displeasure with US restrictive arms measures.

Yearend reports of possible air defense equipment (radar and mobile surface-to-air missiles) orders were not confirmed. Unconfirmed rumors also indicate that Peru purchased T-62 tanks (Moscow's most advanced export model, previously sold only to Middle Eastern countries and Afghanistan) for delivery early in 1977. 4593f

Economic Relations Accelerated

Clearly designed to close Moscow's large trade deficit with Peru (\$85 million in 1976), an economic agreement signed in November provides 10-year credits at 4 to 5 percent interest for unlimited purchases of Soviet goods. The first contract under the agreement was for electric generators for the Olmos hydroelectric project, which eventually could absorb more than \$100 million in Soviet financing. Credits also may be drawn for constructing a steel plant at Nazca and a machinery and equipment plant at Arequipa, both of which are currently under survey. Meanwhile, Soviet technicians are working at the Paita fishing complex and the Andean fuel storage project under a \$25 million 1970 credit, two thirds of which has already been used.

Late in 1976, Hungary agreed to provide equipment for some powerplants under the \$60 million still outstanding from credits extended in 1972 and 1974. New agreements with Bulgaria, Czechoslovakia, Poland, and Romania call for faster use of \$90 million in old credits.

China agreed to provide irrigation equipment under a 1971 \$42 million credit reinstated late last year. Peking also agreed to import \$57 million worth of metals and fishmeal and to sell \$23 million of rice and kerosene. North Korea signed its first trade agreement with Peru, reportedly valued at \$180 million, for the purchase of copper and copper concentrates through 1980.

Venezuela

Venezuela and the USSR signed their first economic cooperation agreement in November. An oil switch deal, signed at the same time, calls for delivery of Venezuelan crude to Cuba in return for equivalent Soviet supplies to Caracas' West European customers. If consummated, the deal will reduce transport cost substantially. At the end of the year, quantities and prices of oil to be exchanged were still under negotiation.

Venezuela received offers of economic and technical assistance from several Communist countries during 1976. Romania offered to construct a railway network, a cement plant, and a soda ash plant and tried to attract Venezuelan investment for a petrochemical complex in Romania to be supplied by Venezuelan crude. In July, a Soviet delegation discussed assistance for developing heavy oil deposits in the Orinoco region. A Polish technical team is currently studying possible assistance for reconstructing coal mines in southern Venezuela.

OTHER LATIN AMERICA: BOLIVIA, BRAZIL, and MEXICO

A Soviet agreement in March 1976 extended 10-year credits bearing interest up to 5 percent to *Bolivia* for machinery and equipment. The credits probably will cover cost overruns at the Soviet-built Potosi tin processing plant, for which a 1970 agreement had

allocated \$7 million. A second tin plant at Marchamarca, also to be financed from the 1970 credit, now has the go-ahead signal. Moscow agreed to provide a powerplant for a \$120 million lead and silver foundry at Potosi, although the extent of the USSR's involvement is not clear. Poland began work on a \$5 million sheet glass factory agreed to in 197³ and signed new long-term trade and economic cooperation agreements, with assistance scheduled for the coal and chemical industries and for transportation. Romania sold locomotives under a \$16 million commercial agreement signed in August, and Czechoslovakia began work on a \$2 million iron alloy foundry under a 1975 agreement.

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Brazil received the second largest East European credit in 1976, \$100 million from Czechoslovakia to finance equipment purchased. Brazil's relations with Communist countries are confined largely to trade, and failure to eliminate the large Soviet and East European deficits (\$385 million for the USSR alone in 1976) continues to cause friction. Communist countries tried to expand machinery and equipment sales on credit, and some East European countries threatened to reduce their commodity purchases if Brazil did not increase its imports. Poland was successful in concluding a barter agreement for the exchange of \$3.2 billion of Polish coal for Brazilian iron ore over the next four years. Brazil also agreed to trade iron ore for East German chemicals.

A Hungarian offer of up to \$150 million of credits to Jamaica for an alumina plant had not been acted on at the end of the year. The 10-year credit, which would make Jamaica the top ranking Communist aid recipient in the Caribbean, would supply equipment for a plant to be operated jointly by Jamaica, Mexico, and Venezuela. The agreement hinges on results of a feasibility study.

Cuba has been Jamaica's largest and most active Communist aid donor. In 1976, more than 275 Cubans were working on education, housing, and medical projects as well as six small dams provided under a technical assistance agreement signed early in year. Most of the Cuban assistance is grant aid. Jamaica's only other Communist aid is an \$9 million 1976 Chinese allocation under a 1974 agreement for a polyester and cotton textile plant and a \$1 million six-year credit extended in 1976 for 5,000 tons of Chinese rice.

Mexico signed its first economic cooperation agreements with Communist countries in 1976. Most of the accords are agreements in principle for which actual credit allocations await further technical studies. An October agreement with the USSR offered hydroelectric, coal mining, and petroleum equipment, for which 10-year credits were discussed in 1975. An agreement with Poland calls for construction of Latin America's largest coal mine and for a possible \$12 million credit for equipment and technical services to Mexico's first beet sugar refinery. A Mexican-Romanian accord was for the exchange of petroleum technology and Mexican construction of an offshore drilling rig to be installed in the Black Sea. In July Mexico ratified the CEMA agreement it had negotiated in 1975, and in August a delegation from CEMA arrived to discuss cooperation in fishing, petrochemicals, telecommunications, and light industry. Subsequent negotiations in October did not produce any agreements.

Afghanistan

259362

Despite Afghanistan's recent success on attracting \$800 million in new development financing from OPEC members, the USSR continues as Afghanistan's most important source of economic and military aid and its principal trading partner. Moscow's \$1.3 billion economic aid program created Kabul's natural gas and petroleum industry and is responsible for large part of Kabul's modern infrastructure.

Sustained Economic Relations

A five-year Soviet-Afghani trade agreement (their first long-term trade accord) set the tone for Moscow's continuing close relationship with Kabul in 1976. The new accord is designed to increase trade 65 percent by 1980. Protocols signed during the year will also expand Moscow's already substantial contribution to Afghanistan's petroleum, gas, power, and agricultural development, with credits to be drawn mostly from \$425 million of aid extended in 1975 for Afghanistan's Fifth Plan (21 March 1977 to 20 March 1982).

Soviet aid to Kabul's oil and gas industry topped \$200 million with the signing of a \$56-million contract for a gas desulfurization plant at Jeraqduq. The Russians will expand their contribution to the industry as the oil deposits at Angot are developed and construction of a 200,000-ton oil ~~refinery~~ refinery at Shibarghan gets underway.

The Soviets moved ahead in 1976 with irrigation work along the Amu River, which eventually will bring 100,000 hectares under cultivation, and began surveys for a dam and power project at Kelagay. Moscow also initiated surveys for two chemical plants during the year.

Among other Communist countries, China was most active. Peking completed a \$12 million irrigation project in the Parwan area and made plans to expand the program. It also continued work on a hospital at Kandahar and a textile mill at Bagram and signed a protocol to build a paper mill. Czechoslovakia was awarded contracts for coal mining and for building a cement plant at Herat, which it will undertake with credits extended in 1973.

Military Relations

The USSR remains Kabul's only major source of military hardware and services. Although no new agreements were concluded in 1976, Moscow delivered \$37 million of tanks, APCs, AN-26 transports, and an AN-30 from \$120 million of orders still outstanding.

Egypt

Although the Soviets did not resume major arms deliveries to Egypt in 1976 and provided no new economic aid, Moscow continued to fulfill its commitments under existing economic agreements.

Military Relations

The cutoff of virtually all Soviet arms shipments to Cairo is going into its third year, with only a small trickle of Soviet arms still coming in. Deliveries in 1976, of only about \$2 million, consisted mostly of Egyptian equipment being returned after servicing. Turning to other Communist countries, Egypt took delivery of about \$15 million worth of military goods. Peking began delivery of equipment under an agreement for aircraft and tank engines, spares, and a production facility for machine tools and motors; North Korea shipped heavy guns and rocket launchers under a 1976 accord for field guns, rocket launchers, ammunition vehicles, and spare parts; and Hungary supplied \$5 million in ground forces equipment. Egypt tried unsuccessfully to obtain spares from India.

In winding down its Soviet relationship, Cairo reduced the Soviet military presence by the end of 1976 to 154 men, down from about 200 in 1975. Ten Czechs also remained to help maintain the large inventories of Communist arms.

Economic Relations Continue

An estimated 1,200 Soviet personnel continued to work on projects that were under construction before the Friendship Treaty was abrogated in March. The USSR continued to provide fisheries aid, expanded assistance to agriculture and rural electrification, and proceeded with work on cement plants and textile mills. Expansion of the steel mill at Hulwan and the Naja Hammadi aluminum plant—Moscow's largest ongoing projects in Egypt—was on schedule, boosting steel and rolled iron production in 1976. According to Soviet claims, electrical output at Aswan also increased, providing more than half of Egypt's electricity. Soviet assistance also has been responsible for electrification of more than 2,000 Egyptian villages.

The Debt Issue

The April Soviet-Egyptian trade protocol called for \$500 million worth of Egyptian exports and \$320 million worth of imports in 1976, with the \$180 million surplus used to service Egypt's economic and military debt with the USSR. Although for several years the trade protocols have been used for *de facto* annual debt settlement, Moscow is now demanding that Cairo sign a formal 20-year rescheduling agreement, with repayment of the \$5-billion military and economic debt to begin immediately. Egypt has requested a 10-year moratorium. Stretching into their third year of negotiations, debt questions remained unresolved as Moscow canceled a delegation visit to Cairo late in December.

W59363

India

Soviet-Indian agreements in 1976 paved the way for closer economic ties despite Moscow's sagging economic aid program.

The New Initiatives

Following two years of hard bargaining with the USSR, New Delhi won a major negotiating victory in 1976 with the signing of a four-year agreement under which 5.5 million tons of Soviet crude oil will be bartered for pig iron, steel, and other nontraditional Indian exports. The advantage was clearly India's, which will save about \$100 million worth of foreign exchange annually, while receiving about 10 percent of its petroleum requirements in exchange for products that are often difficult to sell on world markets.

Also of importance are several contracts under which the output of Soviet-built plants in India will be used in Soviet-financed projects in third countries. One such contract for covers equipment purchases from the Soviet-built foundry at Ranchi for a metallurgical project in Egypt. Other agreements call for Indian shipments to Soviet projects in Bulgaria, Cuba, and Yugoslavia. The new agreements will help expand Soviet-Indian non-petroleum trade to over \$1 billion annually by 1980, as envisioned in the five-year agreement signed in March.

Aid Relations: Net Resource Outflow Continues

Soviet aid deliveries for India's economic development have been small for over a decade. No new development credits have been extended since 1966, and \$475 million remains to be drawn on the \$1.6 billion worth of aid extended between 1955-66. The near doubling of Soviet project aid disbursement to \$40 million in 1976 is still only half the mid-1960s peak and has done little to stem the growing net outflow of Indian resources to the USSR in repayment for economic aid. A sharp rise in India's debt service in 1976, because of an additional \$65 million due for Soviet grain shipments under a 1973 agreement, resulted in a reverse flow of almost \$100 million. The 1976 trade agreement calls for Indian service payments of \$325 million annually by 1980 on its combined economic and military debt to the USSR. India claims that Soviet proposals for devaluation of the rupee in terms of the ruble would add \$500 million to its repayment burden.

N A T O S E C R E T

Iran has become Moscow's largest LDC customer for machinery and equipment, largely as an outgrowth of the aid relationship. The aid program, which began in 1963 with a joint border irrigation and power project, has led to commitments totaling \$800 million and trade that skyrocketed from \$30 million in 1963 to \$700 million in 1975.

Commercial relations moved into the forefront in 1975 with the signing of a \$3-billion industrial cooperation plan for enterprises in both the USSR and Iran. Tehran is considering funding a paper plant in the USSR to be paid for from the plants output. In 1976, Iran awarded Moscow more than \$1-billion worth of commercial contracts, including purchases of equipment for a heavy machinery complex at Esfaryan and a foundry forge complex at Kerman (the largest of its type in the world). The USSR also began work on a second dam on the Aras River to irrigate 120,000 hectares on each side of the Soviet-Iranian border and provide each country with 100,000 kilowatts of electricity. Moscow also plans to expand to 8 million tons annually the steel mill at Isfahan built with \$500-million of Soviet aid; it also will build a 600 megawatt thermal power station at Ahwaz, possibly a \$500 million aluminum plant, and is expected to participate in the construction of a second gas pipeline. Iran will pay for at least part of these transactions with natural gas, with the annual surplus of about \$100 million that it has been running on gas sales after servicing its economic and military aid debt to the USSR.

Soviet Economic Relations: Growing Commercial Transactions

The USSR and Iran signed industrial and military accords of greater values than in any previous year. A \$544-million contract in November pushed Soviet military sales to Iran to almost \$1.4 billion. Despite the Shah's efforts to downplay the deal's significance, the new order established the USSR as Iran's major source of ground forces equipment. Negotiations throughout the year set the stage for Soviet-Iranian cooperation in building large new heavy industrial projects in both countries. Major transport bottlenecks at Gulf ports and along the Soviet-Iranian border, however, continued to delay Soviet shipments to aid projects in Iran.

Iran

Poland fulfilled its outstanding commitments with delivery of \$15 million worth of TS-11 jet trainers and one Polnochny class medium landing ship. Poland has provided India with \$60 million of military hardware since 1971.

India reached almost \$170 million in 1976, the highest level since 1971. current MIC-21M program ends around the turn of the decade. Soviet military deliveries to reportedly obtained Soviet agreement for licensed production of the MIC-21 BIS after the worth of new contracts with the USSR for 70 MIC-21 BIS jet fighters in 1976. India also Despite a desire to diversify sources of arms supplies, New Delhi signed \$135 million

Military Relations

USSR 1976

N A T O S E C R E T

East European Relations

W 593H3

Bulgaria, Hungary, and Poland concluded a series of agreements in 1976 that increased aid allocations to Iranian agriculture, irrigation, and food processing under existing credits. Bulgaria contracted to build a 100,000-ton cold storage facility; Hungary will continue assistance for state farms, and Poland is to build new sugar mills and other food processing plants.

East Germany's commitment to supply cold storage plants, railway equipment, and maintenance shops, heavy industrial machinery, and optics involved new credits of unknown amount. Romania extended new aid to cover Iran's purchase of railway cars and agreed to increase the capacity of a jointly owned soda ash plant to proceed with new joint ventures in petrochemicals and cement. A \$2.5-billion 20-year contract for the supply of 3.6 billion cubic meters of gas annually to Czechoslovakia is Prague's largest agreement ever signed with a Third-World country. The contract is part of an Iranian - Soviet - West European triangular gas deal.

East European countries also took other steps to expand their trade with Iran. A Czech agreement would raise 1977 exchanges to \$100 million, 25 percent above the 1976 level. Romania's agreement would result in a tripling of 1975 trade, to \$1 billion a year by 1980. The \$780 million of Iranian credits extended to Bulgaria, Poland, and Romania in 1975 for agricultural development schemes will begin to pay off over the next few years as these countries send the produce of these enterprises to Iran. For example, Bulgaria will deliver \$100-million worth of agricultural products annually in the next five years.

Iraq

Iraq and the USSR brushed aside political differences following Kosygin's visit last spring to conclude a military agreement and a series of economic accords that will expand Moscow's supplier role.

Record Military Transactions

The military deal, matched only by Moscow's 1974 sale to Libya, underwrites practically all of Iraq's current needs for major weapons systems. The USSR is determined to maintain a foothold in the Arab world and access to Persian Gulf naval facilities in the Arab world and access to Persian Gulf naval facilities and undoubtedly hopes to check Iraq's recent attempts to diversify arms suppliers. The estimated \$1.2-billion deal would place Iraq first among current recipients of Soviet military hardware, surpassing by half a billion the 1974 Soviet accord. The agreement is to include large numbers of MIG-21 and MIG-23 jet aircraft, surface-to-air missile equipment, radar equipment, T-62 tanks, BTR and BMP armored vehicles, and coastal artillery (probably 130 mm). Baghdad may also receive its first MIG-25 jet aircraft, probably the reconnaissance version. In addition, Iraq signed contracts for helicopters as well as for vehicles and vehicle spare parts.

Meanwhile, Soviet deliveries to Iraq—mainly under earlier agreements—reached more than \$450 million, with aircraft by far the most important category. At least 86 planes, valued at \$250 million, were received—the largest number Moscow has sent Baghdad in a single year and more than three times the 1975 number. Included were 29 MIG-23s, 39 MIG-21s, and 18 SU-20s. Advanced MIG-21 Fishbed Ls accounted for about half the MIG-21 total. Iraq also received 14 MI-8 helicopters, an OSA-II guided-missiles patrol boat, 150 T-62 medium and some PT-76 light tanks, 50 BMP infantry combat vehicles, 141 BRDM armored scout cars, and 6 SCUD transporter-erector-launchers.

Iraq signed new agreements to buy about \$100 million of additional arms from East European countries and North Korea. Hungary and Czechoslovakia supplied most of the \$80-million worth of equipment delivered from Eastern Europe in 1976.

To support Iraq's newly organized jet fighter squadrons, the Soviets and East Europeans increased their military advisers and technicians by 200 to 1,200, and some 300 Iraqi military personnel went to the USSR, mostly for pilot and aircraft training.

Economic Relations: New Focus on Power and Water Development

A May agreement reportedly will triple Soviet economic assistance in the next five years, compared with the last five. The agreement, like most recent Soviet economic accords with

LDCs, probably calls for separate negotiation of credits for individual projects. Firm commitments in 1976 under the agreement—mostly for power and irrigation projects—are conservatively estimated at \$150 million. W59322

Soviet specialists are also preparing a comprehensive land and water use program as a guide for development over the next 25 years. The program will include \$1 billion in contracts signed in December for four major irrigation and power projects—the Haditha and Habbaniyah dams on the Euphrates River and two canals linking irrigation areas in western and northern Iraq. Additional projects under negotiation include the \$1-billion Hindia and Fallujah dams. Soviet power and irrigation projects in progress or under discussion would add 8 million megawatts (MW) of installed power capacity and bring 2.2 million hectares under irrigation.

Ongoing Activity Accelerates

During 1976 the USSR completed a 200-MW expansion of the Najibiyah thermal powerplant, the 42-km Tharthar irrigation canal, and the Baghdad-Basrah petroleum products pipeline (although the pipeline was not yet in operation at yearend).

About 2,900 Soviet technicians were present in Iraq during the year. Priority attention was given pressurization problems at the Soviet-developed Rumaila oilfield, where output was running at less than half the 800,000 b/d rate scheduled for the end of 1975. Water injection equipment ordered in August under the new economic agreement is intended to raise output substantially by 1978. Work continued at other fields (Nahr Umar, Ratawi, Luhais, Dujaylah, Halfayah, and Khanaquin) as part of Moscow's 20-year oil development plan for Iraq. The Soviet-developed facilities, financed by more than \$120 million in credits since 1968, reportedly account for 30 percent of Iraq's current crude output.

The first meeting of the Iraq-CEMA Joint commission established in 1975 ended in November with the establishment of working groups to recommend suitable projects for multilateral cooperation. Areas under study include petroleum, agriculture, and light industry. While some observers feel that the CEMA connection will only provide integrated planning for Iraqi projects, in fact the administrative framework to disburse multilateral aid funds has been created through Baghdad's association with CEMA.

Eastern Europe: New Contracts for the Five-Year Plan

Baghdad's apparent willingness to barter oil for industrial equipment and services make Iraqi projects particularly attractive to East European countries faced with rising oil import bills. Romania signed a new economic agreement in May that identified petroleum development, land reclamation, agriculture, and inland fisheries as priority targets.

Czechoslovakia will continue to expand the Basrah refinery, which was completed in 1974 with \$27 million of Czech credits. East Germany will participate in construction of a railroad between Baghdad and the Syrian border, while Bulgaria will complete food processing and livestock projects in 1977. Hungary has expanded oil exploration under a 1969 credit and agreed to construct several housing projects.

Financing arrangements for new projects have not been announced; it is likely, however, that most East European countries are allowing faster drawdowns of their \$250 million of outstanding credits. W59813

Pakistan

Pakistan continued to depend on China for military goods while the USSR remained the ranking Communist economic aid donor. Chinese arms supplies, though smaller than Soviet economic aid, provide 75 percent of Islamabad's weapons imports whereas all Communist countries together provided only 5 percent of Pakistan's economic aid receipts in 1976.

China Expands Military Support

Continuing a 10-year relationship that has made Pakistan by far the largest recipient of Chinese military aid, Peking agreed in 1976 to provide Islamabad with air force, navy, and ground forces equipment under agreements estimated at \$75 million, bring China's total 11-year commitment to almost half a billion dollars—two thirds of China's military aid to the Third World.

Despite its heavy support of Pakistan's military establishment, China has been cautious in providing additional assistance for Islamabad's development program. Nevertheless, Chinese projects underway maintained their normal pace in 1976.

Despite concern over Moscow's support for India's expansionist policies on the subcontinent, Pakistan has accepted \$650 million worth of aid from the Soviets. This includes a \$425-million commitment to the Karachi steel mill—Pakistan's largest industrial undertaking. Construction on the 1.1-million ton plant was begun in 1974, and completion is scheduled for 1980. Pushing ahead with its other aid ventures in Pakistan in 1976, the USSR completed equipment deliveries to the 430-MW Guddu powerplant and continued work on associated power lines. Despite reports that Pakistan would terminate Soviet oil exploration contracts, Soviet geologists arrived in December to extend prospecting into new areas. According to Pakistani officials, two new Soviet-developed wells are now producing 2,000 b/d.

Romania—the only important East European contributor to Pakistan's development—concluded a new economic agreement in October possibly to cover an additional expansion of the state-owned Karachi petroleum refinery already being expanded under a \$56 million Romanian credit agreement. Romania also continued port development at Qasim under a \$16-million contract and agreed to construct a heavy machinery plant at Taxila. East Germany extended a \$10-million equipment credit in 1976.

Syria

Despite Moscow's displeasure with Syrian military operations in Lebanon, a new economic agreement was signed and sizable military deliveries continued throughout the first half of 1976. The USSR did not, however, sign a new arms agreement with Syria—the first year it failed to do so since 1969—and after midyear arms shipments were drastically reduced.

Arms Flow

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Damascus had become Moscow's favored arms customer among Arab countries following the 1973 Middle East war and was the only major client in the area to receive advance-model military equipment on credit. Because of large shipments early in 1976, Syria's arms receipts for the year (nearly \$300 million) surpassed those in 1975. Deliveries were mostly of sophisticated weapons, ordered under the \$500-million October 1975 accord, with aircraft comprising three fourths of the total value. Included were:

- 27 advanced MIG-21 Fishbed-L jet fighters, the first deliveries of this aircraft to a Middle Eastern country;
- 10 older MIG-21 variants;
- 12 MIG-23 jet fighters; and
- 35 MI-8 helicopters.

Syria also received its second Petya-class destroyer escort, equipment for 3 SA-2 and 3 SA-3 surface-to-air missile battalions, BMP infantry combat vehicles, and BM-21 122-mm rocket launchers.

In addition to slowing deliveries in the last half of 1976, the USSR signaled its displeasure with Syria's role in Lebanon by demanding advance cash payments for overhauling aircraft and tank engines. In reaction to Moscow's heavy-handed tactics, Damascus accelerated its program to decrease dependence on Soviet military advisers and technicians, reducing their number to about 2,000 in 1976 from a 1974-75 peak of 3,000.

Czechoslovakia was the only East European country to deliver arms to Syria in 1976. It provided 146 T-55 tanks, contracted in 1975, and a steady stream of construction equipment ordered in the three previous years.

Economic Relations in High Gear

As an expression of Moscow's continuing interest in Syria, Kosygin promised new development assistance during his June visit to Damascus. His \$300-million pledge was double the largest single previous Soviet economic commitment and brought Moscow's total 20-year commitment to Syria to \$765 million. Most of the new assistance will be allocated to continuing projects, especially land reclamation in the Euphrates dam area and the increasing of oil production at Soviet-aided facilities.

Work on land reclamation was begun in 1976 at Meskene and three additional power generators were installed at the Euphrates power station, increasing the plant's capacity to 500 MW. The Soviets continued to string power lines from the dam and extensive work on rail lines continued as part of a major Soviet effort to reconstruct the Syrian rail system.

The centerpiece of the Soviet program has been the \$2-billion Euphrates dam complex, for which Moscow has provided \$185 million in credits. With completion of the first stage in 1977, 600 MW of electric power can be generated. The dam will eventually add 1 million hectares of irrigated land and, 100 MW of power. Other facilities associated with the project include experimental farms, research stations, a new city at Tabqa, and 15 villages to house

40,000 agricultural workers. Soviet-built training facilities already have graduated 12,000 technicians for the power industry. W59315

The USSR together with East European countries has also been responsible for developing Syria's national oil industry. Syria is now a net exporter of oil, with 1977 export revenues estimated at about \$500 million. Soviet exploratory work has yielded new reserves of almost 9 billion barrels of oil. The refinery at Homs, built with \$40 million of Czech credits and now being expanded, satisfies most domestic demand for petroleum products. Apparently the 1975 reports of possible expulsion of Soviets from the oil development program were premature. Syrians state that while Soviet technicians may be less competent than Westerners, they come at one third the price.

Turkey

At the end of the year, Turkey was discussing Communist participation in \$2.2 billion worth of industrial projects.

The USSR: Seeking a Major Contractor Role

Exploiting Turkey's growing uncertainty over future relations with Western allies, Communist countries moved rapidly to negotiate broad economic agreements that assure them a growing role in Ankara's development plans.

The USSR and Turkey also signed a protocol in December which spelled out projects to be supported by Moscow under the 1975 agreement which had propelled Turkey into fourth place among Soviet aid recipients. The new protocol, signed during the first annual meeting of the Soviet-Turkish Joint economic Commission, gave the go-ahead for studies on projects with a reported total cost of \$1.2 billion, for which Moscow had agreed in principle to furnish \$600 million to \$700 million. Under the protocol initial engineering contracts are to be drawn up in first half 1977 for expanding the Iskenderun steel complex to 4 million tons annual capacity from its present 1 million tons and for increasing aluminum capacity at the Seydisehir complex. Moscow will also construct two powerplants (with a total capacity of 800 MW) and two heavy electrical equipment plants.

Dramatic Upswing in Relations with Eastern Europe

Ankara expanded relations with Eastern Europe through wide-ranging economic agreements with Czechoslovakia, Hungary, and Romania. Previously, East European activity had been confined to light industrial projects and a powerplant for which a commercial-type credits had been allocated.

In 1976, Romania extended \$200 million in 10-year, 5-percent credits for the \$500 million, 100,000 b/d petroleum refinery to be built north of Ankara. Additional Romanian credits also are expected for petroleum drilling and production equipment. We do not have details of the Czech and Hungarian agreements that may also have provided credits, nor for the 1976 Czech contract for a 330-MW powerplant near Izmir. Ankara reportedly asked Prague to study industrial projects with a total cost of about \$900 million. These included a \$650 million electromechanical complex, steelworks equipment, and powerplants. The Hungarian agreement is more general, calling for cooperation in metallurgy, power, food, and textiles.

SOUTH -45-

Other Near East and Asia

Bangladesh turned to China for military and economic assistance for the first time in 1976 as ties with the USSR deteriorated over delays in Soviet spare parts supplies. Following completion of Soviet military deliveries under a 1972 accord and Moscow's failure to provide additional assistance, Peking responded to Dacca's request for aid with deliveries of aircraft batteries and ammunition. China also agreed to consider further support for the Bangladesh military. Despite strained relations, the Soviets fulfilled commitments to ongoing economic projects, including the 100 MW Ghorsal powerplant that was completed during the year. Progress was also made on the electrical equipment plant at Chittagong and oil and gas exploration was undertaken. Negotiations for Chinese aid to agriculture and the textile industry were in process at the end of the year.

Cyprus received its first aid from Eastern Europe in June—a \$5-million Czech credit for equipment purchases, repayable in eight years at 2.5 percent interest. In July, Nicosia signed a 10-year economic cooperation pact with Bulgaria, which may provide financing for imports of Bulgarian equipment and machinery.

A November Soviet agreement with Greece settled a two-year dispute over Greek cancellation of the \$89-million contract for the Philippi power project. Under the new agreement, Athens will purchase \$69 million worth of Soviet equipment for two powerplants, with some of the equipment taken from deliveries already made for the Philippi project. Greece also contracted to buy 500,000 tons of Soviet crude oil for \$42 million. Part of the payment will be in agricultural goods.

Consistent with a policy of accepting aid from all sources for its new development plan (1976-80), *Jordan* accepted Soviet assistance for technical schools, petroleum exploration and rural electrification. Previously Romania had been Jordan's only Communist contractor, having expanded the Zarqa refinery at Amman and built a pipeline to the refinery. Agreements were signed in 1976 for an additional \$180 million expansion of the refinery's capacity to 60,000 barrels a day, reportedly enough to satisfy Jordan's domestic requirements through 1985. Financing was not announced. Jordan also concluded its first economic cooperation agreements with Hungary and Poland, and was considering one with Czechoslovakia. Prague completed hydrological prospecting for a dam on the Zarqa river, probably as a commercial deal. A Soviet air defense system, offered as an alternative to a more costly US system, was turned down in favor of the US package which Saudi Arabia agreed to finance.

Kuwait accepted a limited number of Communist countries' bids for shares of its market in 1976. *Kuwait's* reported purchase of \$300-million worth of Soviet arms (including self-propelled antiaircraft, artillery systems and SA-7 surface-to-air missiles) was not confirmed during the year, but an agreement in principle for the purchase of missiles was signed early in 1977. Hungary and Poland were awarded only small civilian contracts despite active bidding. At the end of 1976 *Kuwait* had not yet finalized formation of a jointly owned \$1 billion petrochemical complex in Romania, stipulated under a 1975 agreement. Nor was Moscow able to obtain sizeable time deposits of *Kuwaiti* funds Soviet banks.

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Nepal is expected to provide additional economic aid from the USSR under an agreement signed in November, following feasibility studies on paper, pharmaceutical, and glucose plants. China agreed in 1976 to proceed with a \$4-million irrigation project at Pokhara and the 65-km Naranghar-Gurkha road, both financed under a \$35-million grant.

North Yemen began to shed its dependence on Soviet arms in 1976, and Saudi Arabia's drive to push the Russians off the Arabian peninsula was partially successful in that country. Although Sana took delivery of \$10-million worth of Soviet military hardware due under a 1975 contract, it refused Moscow's offer of MIG-21s in order to obtain \$139 million in Saudi financing for arms purchases in the West. Sana also reduced the number of Soviet advisers⁷⁶ to 105. Activity on the Soviet-aided cement plant at Bajil and for agricultural development, however, maintained their previous pace, and China provided \$27 million worth of new aid and industrial plants and continued a road construction program.

Saudi Arabia was less successful in weaning *South Yemen* from the Russians. Possibly to counter Saudi offers and assure continued use of the Aden naval base, the USSR extended \$24 million in new economic assistance for transportation, fisheries, and agricultural development. It also accelerated military deliveries to a record \$40 million, with shipments of MIG-21s and MIG 7s along with radar and ground support equipment. The Soviet contingent at the Aden naval facility remained high.

Although *Sri Lanka* accepted a Chinese loan of \$3 million for budget support and concluded its traditional concessionary rice-rubber barter agreement, Peking turned down *Sri Lanka's* request for large amounts of new aid. Instead China worked off its outstanding agreements: it began work on the Gin Ganga flood control project and on a textile mill at Mineriya. These projects will bring about 200 Chinese technicians into *Sri Lanka*.

The Soviets, whose aid program has been smaller, began work on the Samanlawewa hydropower project (under a \$57 million 1975 credit) and expanded a Soviet-built steel mill. Moscow continued petroleum exploration, despite reports of Colombo's dissatisfaction with the Soviet effort. East European activity during the year included a Romanian agreement for joint ventures in industry, agriculture, and transportation; an East German agreement to furnish rice and textile mills (probably under a \$42-million credit); a Czech contract for equipment and technical assistance to a refractory works and transmittal of plans for a small alumina plant to be built with a \$10-million Hungarian credit extended in 1972.

Appendix B

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Revised Prices of Military Equipment Exported to LDCs

A 1976 review of Soviet prices for military equipment sold to LDCs has enabled us to update and reassess the value of Soviet arms exported to LDCs in 1972-75. Prior to the update, Soviet equipment prices were based largely on pre-1970 sources and in the case of new items for which Soviet price information was not available, on the cost of producing comparable equipment in the United States. Ruble prices had been expressed in 1971 dollars. An examination of Soviet export data tended to confirm that prices of recent exports were understated while the value of grant aid (including the amount of discount allowed from list prices) was probably overstated.

In addition to our usual annual review and updating of previous editions of the Communist aid review, we revised the values of Soviet military exports in the current edition by (a) using new Soviet trade prices where available, and (b) converting values of all arms transfers into current dollars, based on the exchange rate for the ruble in the year when the transaction took place.

New prices charged to several large Soviet arms customers for major items of equipment were applied for deliveries of these items to all clients since 1971. These items made up almost half of deliveries in the four-year period and accounted for about two thirds of the 45-percent increase in total value. The rest of the upward revision results from the application of current exchange rates to old prices.

In applying the new prices to deliveries, we continued to (a) use uniform equipment prices for all customer (b) make a blanket allowance for initial spare parts and ammunition and (c) include an allowance for follow-on spares and ammunition only when they were reported.

Agreements, as opposed to deliveries, were also revalued on a country-by-country basis to reflect the higher prices. Where information on the kind and amount of equipment ordered was not available, we adjusted contract values on the basis of actual equipment deliveries received under the orders.

To test the validity of our findings, we again compared the dollar value of arms exports, exclusive of estimated grants, with Soviet export data. In making the comparison we revised grant aid estimates, for which, because of the lack of new contract information on terms, we had previously used terms from old agreements. Such terms often included discounts of a third to a half off list price, which we believe are no longer applicable. For purposes of comparison with current Soviet trade data (which exclude grants), grant aid was allowed only in cases where we had specific information that a discount was provided.

Although, as noted in the 1975 edition, published Soviet statistics do not explicitly identify military deliveries to LDCs, an unidentified residual in official Soviet export data is believed to consist mainly of military goods. The residuals are the difference between published Soviet statistics on total exports to all LDCs and the sum of the value of exports to the individual LDCs. The unexplained differences (noted since 1954) have been roughly comparable with estimated military deliveries, which are assumed to comprise the bulk of the difference. While the residuals diverged sharply after 1967 from our unrevised delivery estimates, the revised dollar estimates of arms exports since 1971 are clearly in line with the residuals. The value of the residuals from 1957-75 was \$11.5 billion. This compares with \$7.9 billion for earlier delivery estimates and \$10.4 billion for the revised figure. The following table and graphic show estimated values of Soviet nongrant arms deliveries used in earlier publications, our revised estimates for deliveries after 1971, and a comparison of both sets of values with Soviet trade residuals. Because Soviet trade data exclude all grant aid, our delivery estimates are net of military goods shipped free of charge, where discounts from list price apply, we have used the discounted price.

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