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SOVIET ECONOMIC RELATIONS WITH SELECTED CLIENT STATES
IN THE DEVELOPING WORLD

Note by the Secretary General

At its meeting on 21st April 1982 the Council instructed the International Staff to prepare an unclassified version of the paper "Soviet Economic Relations with Selected Client States in the Developing World", C-M(82)12, dated 4th March 1982 for use in NATO capitals.

2. Attached is an unclassified version of the report, taking into account comments received from delegations and points made during discussions in the Economic Committee on different occasions since 27th May 1982. Attention is called to the fact that this paper should not be published as such, although the authorities of member countries may use the information it contains in any way they consider appropriate.

(Signed) Joseph M.A.H. LUNS

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IN THE DEVELOPING WORLDI. INTRODUCTION

1. Over the past two decades, the USSR has expanded outside Europe by gaining influence in countries of the less developed world. In terms of establishing firm Soviet control, the degree of success varies from place to place and the cost has been high in some areas. An element in understanding Soviet priorities and the aims of its activities in the Third World is the actual cost of its relations with those nations.

2. When considering those relations, it is appropriate to distinguish between three groups of countries:

(i) The Communist Developing Countries - CDCs - where Marxist/Leninist régimes are firmly established: Cuba, Mongolia, Vietnam, Cambodia, Laos, North Korea; the USSR spend money generously on this group of clients.

(ii) Other Developing Clients - ODCs: Angola, Ethiopia, Mozambique, Afghanistan, South Yemen. In these countries Communist inspired régimes are in power, but not firmly in control. The degree of aid, either in money terms or in personnel, varies but is not so generous as for the CDCs.

These two groups are referred to collectively as "Client States".

(iii) Other Less Developed Countries: all developing countries not covered by (i) or (ii). The total net aid from the USSR to the countries in this category is negative, because they are repaying to the Soviet Union more than they are receiving in Soviet aid.

3. Soviet aid to all developing countries, excluding the six countries in the first group is trivial at 0.02% of estimated Soviet GNP. The aid to the first and second groups together is much higher and represents for the Soviet Union the "economic cost" of its expansion, or potential expansion, outside Europe.

4. In this report an attempt is made to assess this cost. It is perhaps important to draw the attention of the reader to the fact that this study is not concerned with the resources the USSR devotes to its allies in Europe, since these countries are all part of the industrialized world.

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II. GENERAL CONSIDERATIONS

5. The countries concerned in this report, referred to as "client states" in the developing world, constitute the first two groups briefly mentioned in paragraph 2 above:

- (i) Communist Developing Countries (CDCs)
i.e. those countries that have a consolidated Marxist-Leninist régime in power: they serve either as a "cordon sanitaire" (Mongolia and possibly Afghanistan in the future, depending on the outcome of Soviet military operations in that country) or as strategic assets (Cuba and Vietnam) (North Korea is also included in the same category for the purposes of this paper).
- (ii) Other Developing Clients (ODCs)
i.e. nations belonging in the much wider category of Less Developed Countries (LDCs) where the level of Soviet penetration is relatively high and is paralleled by Marxist-Leninist oriented régimes which - however - have not totally consolidated their domestic control. In almost all cases the régimes have to face guerrilla movements (Afghanistan, Angola, Ethiopia, Mozambique). Nevertheless, the USSR is able to extract political and strategic benefits from them (economic benefits, whenever they exist, are marginal), such as the use of bases and/or facilities (Ethiopia and South Yemen) or attempting to use them as pawns in the East-West equation (Angola and Mozambique). This category is open-ended, and a number of countries excluded from detailed analysis at this stage appear to be possible targets of opportunity in the future (e.g. Nicaragua and Grenada).

6. Table 1 at Annex lists the nations at present included in either of the above groups, together with the estimates of economic assistance and arms deliveries (minimum estimates including commercial rates) they received from the USSR in the period 1970-1980. The data given, although sometimes only tentative, reflect the best information available.

7. The first group of clients (CDCs) receive a large amount of Soviet economic aid (\$4.7 billion in 1980) and some weapons and military equipment (\$350 million in 1980),

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both on very liberal terms. The second group of clients (ODCs) receive vast amounts of arms and equipment (around \$900 million in 1980) but very limited economic aid (\$300 million in 1980, of which all but \$20 million went to Afghanistan, mostly for projects of strategic interest, such as roads and bridges).

8. The allocation of Soviet aid appears to be changing: perhaps the most significant development of recent years is the growth in aid to South-East Asia, to Laos, Cambodia, and especially Vietnam, which received \$1.1 billion in project aid, commodity grants, and subsidies in 1980. However, economic assistance for Vietnam may have fallen in 1981, and aid to Laos, although growing, may find an obstacle in the country's difficulty to absorb a 2.5-fold increase in trade with the USSR and the \$600 million in Soviet aid reportedly called for in the 1981-1985 agreement, because of the country's insufficient ability to carry out significant development projects. Afghanistan and Mongolia are obtaining greater economic aid from the USSR, reflecting Soviet concern over economic conditions in these two border states. Net Soviet aid disbursements to Afghanistan rose from \$34 million in 1979 to some \$276 million in 1980, and will probably be much higher in 1981-1982. Economic aid to Cuba, the largest Soviet aid recipient, exceeded \$3 billion both in 1979 and 1980. Economic aid to North Korea has been stagnant since the mid-1970s, and has declined in real terms.

9. The above survey shows that, although at much differentiated rates, each client is a net recipient of Soviet economic assistance - unlike most non-client LDCs - and clients collectively constitute a major drain on scarce Soviet resources. Indeed, the overall gross burden can be assessed at \$6-7 billion if economic aid and arms deliveries are cumulated, half of which is accounted for by economic aid to Cuba alone(1). This drain should be monitored continuously, and estimation techniques should be refined so as to identify all the components of aid, especially those which imply hard currency opportunity costs (e.g. oil deliveries) and hard currency actual disbursements (e.g. to buy grain destined for aid).

10. Although economic analysis would suggest real limits to Soviet ability to meet increasing demands from its client states, the Soviet leadership's willingness in the past to impose sacrifices in order to incur perceived political gains vis-à-vis the West should never be ignored. In other words, the political value of a prospective client can outweigh any cost in specific instances although the continuation of aid depends on the client's subsequent behaviour (e.g. aid to North Korea faded away as a result of its more independent stance).

(1) Data show that massive injections of aid started in 1975 (see Table 1). The time correlation with the use of Cuban troops as an extension of the Soviet armed forces - especially in Africa - cannot go unnoted. There was also a correlation between increases in economic aid and changes in world prices of oil after 1975.

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11. In any case, no client should be considered as acquired by the Soviets for ever, nor any level of penetration, influence or dominance deemed as irreversible. Of course, it would be incautious for the West to massively finance economic takeoff in Soviet client states. It has been argued, however, that Western presence and a certain amount of economic aid is justified in such states, at least to inspire in the local leaders the feeling that an alternative exists. Naturally, this is more true for ODCs than for CDCs, where Soviet aid, running to \$5-6 billion, is unlikely to be challenged. However, it is argued by some that in the longer run Western economic penetration and aid may represent a potential for changing the political complexion of Soviet clients, especially those not firmly in the Soviet camp. This has to be balanced off by the desire on the part of the USSR to ensure that LDCs such as Ethiopia get as much aid as they can from the West.

III. RELATIONS WITH COMMUNIST DEVELOPING COUNTRIES (CDCs)

12. This group of countries - dominated by Marxist-Leninist régimes which are viewed by the Soviets as irreversibly acquired to their ideology - are the main recipients of Soviet assistance. For most of these countries, Soviet support is a matter of economic survival and the only source of military supply. Weapon deliveries are large and in the case of Cuba, growing. However, they are not as massive as might be expected, mainly for two reasons: (1) armaments for Cuban proxies overseas are not accounted in the data presented in Table 1 at Annex, and (2) arms shipments to Vietnam are at a comparatively low level because of the large reserves Hanoi inherited from the former South Vietnamese forces, which were then restocked by the Russians in 1979. However, whilst an analysis of military assistance to this group of countries - beside the merely quantitative profile presented in Table 1 at Annex - lies beyond the scope of this paper, for it involves political and strategic considerations, a country-by-country analysis of recent trends in Soviet economic aid to CDCs is outlined in the following paragraphs.

Cuba

13. Of all the Third World states, Cuba was the largest recipient of Soviet economic assistance in 1980, acquiring aid worth well over \$3 billion. This was equivalent to almost 25% of Cuba's Gross Domestic Product. Arms deliveries probably raise this to well over 25%. Assistance given by the Soviet Union took two principal forms, commodity subsidies providing balance of payments support (about 87% of total aid), and economic and technical assistance for development projects. With CMEA absorbing in value about 70% of Cuba's exports (the USSR alone imported 55%) and in return supplying it with 80% of its imports (60% from the USSR), subsidised trade prices constituted a major mechanism of Warsaw Pact aid.

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14. Last year the Soviet Union paid some 42% above the world price for 44% of Cuba's total sugar exports by volume; East Europe paid a reduced premium for 11% of Cuba's sugar exports. However, with the tripling of average world sugar prices in 1980, the total sugar subsidy dropped by almost one half to roughly \$1.25 billion, a figure which changed only slightly in 1981 (\$1.267 billion). On account of higher international prices, last year the Soviet Union did not pay a premium on its imports of 18,000 tonnes of nickel concentrates from Cuba; this was the first recorded instance since the subsidy was introduced in the early 1970s. Significantly, Cuba obtained over 95% of its oil requirements on Soviet account at a highly concessional rate, approximately 40% of the OPEC price. This oil premium practically trebled in value in 1980 to a figure of \$1.42 billion, making it the largest ever oil subsidy incurred by the Soviet Union.

15. The Soviet Union also provided Cuba with the bulk of its imported foodstuffs and raw materials; some of Cuba's food imports, notably wheat were paid for in hard currency by the USSR. Apart from sugar, which accounted for the greatest part of Cuba's total sales to the Soviet Union, tobacco, citrus fruits, and of course nickel were its chief exports. In October 1980, a new trade protocol covering the period 1981-1985 was signed by Cuba and the Soviet Union, providing for trade totalling 30 billion Roubles (roughly \$45 billion), some 50% higher than in the previous five years.

16. Soviet financial and technical assistance for development purposes was wide-ranging. Energy, ferrous and non-ferrous metallurgy, the electro-technical and electronics industries, the pharmaceutical industry, sugar production, agricultural machinery production, building, transport, education and prospecting for natural resources were all areas receiving attention. An important aim was to develop the energy sector and reduce dependence on Soviet-imported oil. One of the key projects in energy development is Soviet involvement in the construction of Cuba's first nuclear power station at Cienfuegos.

17. Other major ventures, designed mainly to boost export production, are the enlargement of the nickel producing plants at Nicara and Moa and the erection of an entirely new unit at Punta Gorda; the expansion of the steel plant at Jose Marti, the engineering works at Santa Clara, and the thermal power station at Mariel; the construction and modernization of sugar refineries and textile mills and the improvement of transport facilities. In order to support this aid programme, a sizeable body of Soviet bloc advisers and technicians were present in Cuba with Russians and Bulgarians predominating.

18. Only one new credit for economic development was granted last year, a sum of 15 million Roubles (roughly \$20 million) for financing three sugar mills by the CMEA-backed International Investment Bank. However, in October at the same time as

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signing the trade pact, Cuba and the Soviet Union signed an economic co-operation agreement which laid the foundations for Soviet assistance up to 1985 and in some areas up to the year 2000. In the past, economic collaboration has been incorporated solely within a Five-Year Plan framework. During this period the USSR plans to finish 88 projects which were not completed in the 1976-1980 plan period as well as the construction and modernization of 73 new projects including nickel, steel, oil and sugar facilities. This preliminary offer was followed up in Spring 1981 by a firm Soviet commitment of aid worth 1.7 billion Roubles (roughly \$2.5 billion) to be repaid over a period of 12 years.

Mongolia

19. Soviet economic aid to Mongolia is estimated at between \$445 and \$735 million in 1980 (the latter figure reflecting the trade deficit augmented by the amount of oil price subsidies).

20. Of all the client states Mongolia is probably the one which is the most economically dependent on the Soviet bloc countries, and in particular on the Soviet Union. In 1980 the USSR and Eastern Europe supplied Mongolia with all its foreign aid (thus providing around 50% of the country's investment for development purposes), and accounted for over 95% of its foreign trade. In addition to grants for projects and considerable technical assistance, Mongolia obtained some preferential pricing arrangements and the underwriting of its cumulative trade deficit. Therefore, the Soviet bloc countries were involved in every aspect of the Mongolian economy, although they concentrated mainly on the country's industrial development. Nevertheless, Mongolia remains very largely a subsistence economy.

21. It is impossible to determine what the flow of Soviet project assistance was to Mongolia in 1980, but it is known that an average of \$430 million was made available each year under the Sixth Five-Year Plan, 1976-1980. In a new USSR-MPR Intergovernmental Agreement on Economic, Scientific and Technical Co-operation initialled in Moscow in June 1980, the Soviet Union has committed for the next Mongolian Five-Year Plan (1981-1985) at least 2 billion Roubles (\$3.1 billion - an average of \$620 million each year), some 40% higher than the previous plan.

22. Last year about 150 projects were carried out with Soviet economic and technical assistance. The largest of these was the copper-molybdenum ore dressing complex in Erdenet. The second stage was commissioned in June 1980 and the unit which may well be completed a year ahead of schedule in 1981, will export most of its annual production of 16 million tonnes of ore to the USSR. However, Mongolia cannot absorb project aid efficiently, hence the thousands of Soviet bloc specialists engaged in a wide range of activities in the country.

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23. The Soviet Union accounted for at least 85% of Mongolia's total trade conducted with CMEA. Bilateral trade with the USSR rose by roughly 13% to a level of \$1.36 billion in 1980. The Soviet Union provided Mongolia with the bulk of its requirements of oil, equipment, machinery, industrial and transportation products. Mongolia probably obtained its refined products at a preferential price, and with higher world oil prices in 1980, it is likely that this subsidy was about \$15 million (up from \$10 million in 1979). In return, Mongolia exported a large percentage of its meat and dairy products, wool, hides and furs and almost all of its timber and minerals to the USSR. Although it is thought that the Soviet Union paid Mongolia a preferential price for its meat exports, it is also believed that the USSR paid below the world market rate for some of Mongolia's raw materials.

24. Last year Mongolia's imports from the Soviet Union exceeded its exports by approximately \$720 million, almost \$100 million more than in 1979. Consequently, the USSR was obliged, once more, to sustain the cost of this trade imbalance, which is probably the best measure - although different from the usually accepted OECD definition - of actual aid disbursements (covering project aid and grants, but excluding price subsidies).

Vietnam

25. Soviet economic aid to Vietnam is reckoned at slightly over \$1 billion in 1980. Following Vietnam's expulsion of ethnic Chinese and its invasion of Cambodia, China and many Western countries cut off the aid they had been giving. Under agreements entered into at the beginning of Vietnam's first post-war Five-Year Plan (1976-1980), economic aid provided by the USSR in 1980 should have amounted to about \$500 million (and by other CMEA countries about \$150 million). A large part of this was to consist of technical and project aid, but many of the projects undertaken during 1976-1980 suffered delays, and actual disbursements in 1980 were probably much lower than implied in the above figures. On the other hand, Vietnam had poor harvests in 1979 and 1980, and in each of these years the USSR had to finance the import of grain to the tune of about \$350 million. Poor economic performance also meant that the Soviet Union may have had to pay for imports of oil from the OPEC countries, to the value of \$200 to \$280 million annually.

26. Besides being its most important aid donor, the USSR is also Vietnam's major trading partner. In 1980, goods to the value of \$699 million were exported to Vietnam, and Soviet imports from Vietnam that year amounted to \$242 million.

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The Soviet trade surplus was therefore \$457 million, but since Vietnam imports Soviet oil at preferential prices, the real trade surplus was probably nearer \$650 million. Vietnam's major imports are machinery, transport equipment and other engineering products, wheat and wheat flour, petroleum products and cotton fibre. The most important exports are handicrafts, garments, fabrics, coal, rubber and tea.

27. Project aid provided by the USSR in 1980 spanned a wide range of industrial and transport activities. In 1980 it involved the commencement of a very large (1,920 MW) hydro-electric plant, a 1,300 MW thermal power plant, and a diesel engine works, the expansion of a tin mine, a phosphate mine, and a superphosphate plant. In support of aid activities there were about 3,000 Soviet technicians.

28. It is not easy to cost Soviet economic aid to Vietnam, but a trade deficit rounded off at \$500 million (reflecting project aid), the value of the grain supplied (\$350 million), and oil price subsidies of about \$200 million, suggest a figure of \$1,050 million in 1980. It can be added that aid from Eastern Europe is estimated at about \$150 million (mainly project aid), giving a minimum estimate of \$1,200 million for Soviet bloc aid. In contrast, aid from non-Communist countries in 1980 is unlikely to have exceeded \$200 million, and may well have been considerably less.

29. Vietnamese officials went to Moscow in June 1980 and again in March 1981, to seek agreement on the economic assistance vital to Vietnam's new Five-Year Plan (1981-1985). It appears they were told that because of its own economic difficulties the USSR wants to reduce its aid, but nevertheless it was announced in July 1981 that a protocol had been signed envisaging a considerable expansion of trade and economic links between the two countries. It must therefore be assumed that the USSR has decided to continue its support for the Vietnamese economy and that Hanoi will now go ahead and formulate its 1981-1985 plan. However, it is considered unlikely that the USSR will commit itself to levels of aid higher than were reached in 1980, nor will the East European countries countenance any aid commitments more onerous than they accepted during the 1976-1980 period.

Cambodia

30. Soviet aid to Cambodia is increasing rapidly, in parallel with Moscow's higher involvement in Indo-China in support of Vietnamese expansionism. Indeed, the USSR was obliged to increase its economic support because aid was withheld by the West and the international agencies, which find the Vietnamese-backed Heng Samrin régime unacceptable. Soviet economic aid deliveries which had been negligible or non-existent until 1977, reached an estimated \$134 million in 1980. This amount brought Indo-China's bill to over \$1.2 billion in 1980, to which another \$300 million in arms deliveries are to be added (80% of which to Vietnam).

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31. Given the precarious situation of a country which suffered first Pol Pot's rule and then Hanoi's armed aggression, Soviet economic aid unavoidably was mainly emergency commodity grants, with only marginal amounts devoted to project assistance. In any case, as long as military operations last, there is little room for project aid other than that directed to repair such infrastructures as roads and bridges which have strategic significance (this is true in Afghanistan as well)(1). It may also be noted that bilateral trade must be very small, for it is not even reported separately in Soviet foreign trade yearbooks.

32. Since 1980, the Soviets have reduced commodity assistance to Kampuchea. Soviet grain shipments, for example, dropped dramatically during 1981 despite Kampuchean needs. Modestly increased developmental assistance has been granted, however, and several hundred Soviet technicians are working to restore damaged facilities. The number of technicians probably will rise as the assistance agreements are implemented.

Laos

33. Laos is politically and militarily dominated by Vietnam and, indirectly, by the Soviet Union, and receives about 60% of its external aid from Communist countries. The Soviet Union is by far the largest single donor, and it also channelled unknown, additional quantities through Vietnam. In the absence of a well-developed export sector, the Lao economy is dependent upon these aid inflows to finance basic investment, and also to procure fundamental necessities, for per capita income remains one of the lowest in the world. Communist assistance mainly takes the form of grants and interest-free credits, whilst project aid is probably very small.

34. In September 1980, the Soviet Union and Laos signed a protocol co-ordinating their respective national plans for the next Five-Year Plan period (1981-1985) within which particular emphasis was laid upon development of the transport system and the establishment on a compensatory basis of a number of plants, especially cement factories in Laos.

35. A high proportion of Laotian imports from the USSR were financed by credits. The Soviet Union supplies Laos with vital requirements of petroleum, food, consumer goods and equipment. In return, Laos exports timber and timber products, tin, and coffee.

(1) Indeed, Soviet sources state that "in 1980 equipment was provided for the maritime port of Kompong Som and the river port of Phnom Penh, and for brigades to recondition and build vehicle and railway bridges and motor roads"

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North Korea(1)

36. Due to the continuing lack of Western approval and poor financial rating, North Korea conducts the bulk of its trade with, and derives all its external assistance from, Communist countries. This includes the receipt of aid from China with whom North Korea maintains normal economic links, unlike other Communist countries in South-East Asia. China and the Soviet Union are the major, and to some extent, competitive, aid donors. From a quantitative viewpoint, although reliable evidence is unavailable, aid (comprising chiefly technical aid and project assistance) is thought to have been small-scale in recent years, and North Korean expectations of receiving badly-needed balance of payments support were disappointed.

37. On the other hand, it is believed that the Soviet Union was reluctant to dispense substantial quantities of aid on account of outstanding unrepaid debts. Nonetheless, last year some significant projects were carried out. Soviet aid was concentrated mainly on the extension of existing Soviet-built plants, notably the expansion of the capacities of the power stations at Pok'Chong and Chong'Jin; the Kimchaek metallurgical plant and the coal mines in the Anchiu region. In addition, the USSR was building on a compensation basis two electrical equipment plants. North Korea may also have received some commodity aid in the form of wheat supplies financed by the Soviet Union.

38. In 1980, CMEA countries accounted for approximately half of North Korea's total trade with the Soviet Union dominating this flow. The USSR obtained a considerable proportion of its total imports of iron ore and cement from North Korea, whilst in return it was a major supplier of metal-cutting machines, engineering products and vehicles. Given its debts with the West and the latter's political ostracism, North Korea's economic dependence on the Communist world is likely to continue.

IV. RELATIONS WITH OTHER DEVELOPING CLIENTS-(ODCs)

39. This group comprises - at the moment - five countries, but it is open in that new clients can join (as Angola did in 1975 and Ethiopia did in 1977) or old ones leave (as Somalia did in 1977). The members of this group are LDCs - not CDCs - where Communist-inspired régimes are in power but not firmly in control. Their ideological commitment varies, with South Yemen basically Islamic fundamentalist and Ethiopia self-proclaiming Marxist-Leninist. These countries are suffering

(1) The inclusion of North Korea among Soviet clients is more a matter of statistical expediency than of political subordination

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from internal armed opposition of different sorts, from sporadic sabotage in Mozambique to full-fledged civil war in Angola and Ethiopia and widespread guerrilla warfare in Afghanistan. Given such conditions, Soviet arms deliveries overwhelmingly exceed economic aid (\$886 million vis-à-vis \$295 million in 1980), and 95% of the latter is directed to Afghanistan, to restore transport and communication facilities disrupted by anti-Soviet fighters.

40. The paragraphs which follow contain a country-by-country description of the economic relations between the USSR and ODCs. It is stressed that, except for Afghanistan, none of these nations is receiving very significant amounts of economic aid, South Yemen having ranged in 1980 a far distant second, with an estimated \$10.3 million. Although much more important, an analysis of arms supplies - whose quantitative trends are shown in Table 1 at Annex - lies beyond the scope of this paper. However, it is important to note that military assistance is the decisive element in the USSR's hold on these countries.

Angola

41. Angola received \$4.5 million of Soviet economic aid in 1980, and just \$16 million since independence in 1974. Soviet assistance is mainly concentrated on the provision of skilled manpower rather than equipment and materials for major projects. About 600 Soviet experts are believed to be employed in education, prospecting, power generation, agriculture, fishing and health assistance. During last year Soviet involvement was noted at state experimental wheat and cotton farms, three training centres for machine operators were opened and a large consignment of tractors was delivered. On the other hand, frequent reference is made to the growing Angolan resentment of Soviet intensive fishing methods.

42. The USSR is believed to have offered \$40 million in aid credits, following the signing of the 20 year friendship agreement in 1976. This was partly used to supply educational equipment and carry out bridge repairs. The most recent project to be offered on aid terms is the construction of three oil storage depots.

43. East European assistance also concentrates on the provision of experts. An estimated 900 specialists are believed to be employed in various sectors of the economy, including agriculture, mining, health and light industry. Romania alone appears to have offered an aid credit, though very little of the 1978 \$75 million is thought to have been used.

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44. The Cubans are by far the most numerous group of Communist experts, totalling some 6,000. They arrived originally in an attempt to replace the Portuguese skilled labour and are most active today in construction, education, health and engineering. Since the beginning of 1981 agreements have been concluded to supply doctors, to supply lecturers to train teachers, to construct over 2,000 pre-fabricated houses and to modernize Angola's four sugar factories. While Cuban aid to public health and educational sector fits the definition of aid, Cuban construction activity is conducted under standard commercial contracts for hard currency.

45. The limited amount of Communist aid offered in comparison to the financial requirements of Angolan development has led to a move towards the West in search of assistance. Whilst Soviet economic aid is estimated at \$4.5 million in 1980, Western assistance was about \$43 million. No doubt, Angola's marriage to the USSR is not one of economic convenience.

Ethiopia

46. Ethiopia is heavily dependent on foreign assistance to master its current economic problems. However, the aid activities of the Soviet Union and Eastern Europe (particularly the GDR) have contributed only little to improve the living standard of the fast-growing population. Ethiopia is therefore looking to the West and to Libya for economic aid. This move appears to be supported by the Soviet Union, at least as long as it implies no political reorientation of Ethiopia.

47. Trade has been increasing during the last years both with the Soviet Union and the GDR starting from a rather low level, but owing to the lack of foreign exchange reserves and high foreign indebtedness, Ethiopia is of limited interest as a trading partner for the CMEA countries.

48. The strong influence of the USSR and the GDR in Ethiopia must be attributed to the activities of their experts and instructors and, above all, in the case of the Soviet Union, to military aid. Soviet and GDR advisers hold key positions in the public sector. Besides, the GDR focuses on the Unity trade union and other mass organizations. Ethiopia received from the European CMEA countries armaments and weapons worth US \$1,702 million during the period from 1973 to 1980. Thus, Ethiopia ranks first among the Soviet arms clients in sub-Saharan Africa.

Mozambique

49. Mozambique received \$1.5 million of Soviet economic aid in 1980, and a meagre \$7 million since independence in 1974. Approximately 350 Soviet experts are believed to be employed in Mozambique at present. Assistance has increased slightly

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recently, following the 1980 offer of a \$47.7 million increase to their 1976 \$13 million aid credit. Agricultural aid continues for Nampula cotton farms and the Limpopo valley irrigation project. The joint fishing company Mocopesca was expanded last year by the arrival of eight new fishing boats. With the recent completion of a floating dock, work appears to be starting on Maputo's ship repair complex. The Soviets have also offered to improve the railway unit between Moalize and Beiro, a line which is particularly important for the export of hard coal.

50. East European involvement continues with approximately 600 experts providing assistance for agriculture, transport, health and mining. Since the beginning of the year Hungary has delivered 70 Ikarus buses and Romania two diesel locomotives. Bulgaria has agreed to build a centrifugal pump and electric motor factory. The GDR, however, is the most actively involved, providing two-thirds of the East European experts. Emphasis is placed on the development of Mozambique's mining sector, and coal mining at Moalize is being increased. No aid agreements have been offered by Eastern Europe and debt resulting from the trade imbalance is charged on commercial terms.

51. Over 700 Cubans are estimated to be employed in Mozambique in fishing, agriculture, health and education programmes. The most recent offer of assistance is for developing the salt industry. Cuban economic personnel are believed to be preferred owing to their lower cost (e.g., a professional contract is estimated to cost \$576 per month, approximately half the cost of an East European).

52. Despite Mozambique's political leaning towards the Soviet block, the latter's poor response to requests for more economic assistance, the denial of CMEA membership and the failure to provide sufficient aid on preferential terms, is inspiring in Maputo a greater interest in Western offers.

Afghanistan

53. Afghanistan is a very peculiar example of Soviet assistance in many respects. Historically it has been the first and one of the major Soviet aid recipients in the Third World. Indeed, aid started in 1954 with a \$5 million commitment to pave Kabul's streets. The USSR has always been the most important donor of aid to Afghanistan, although the end of the story casts doubts on the purpose of their generosity. Soviet aid has traditionally placed much emphasis on transport facilities, particularly roads leading from the Soviet border.

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54. In 1980 Soviet economic aid rose dramatically to \$276 million, up from \$34 million in 1979. Such money was spent mostly (\$240 million) on commodity assistance, but the cost of repairing infrastructures damaged by the war and building projects directly related to assisting the Soviet occupation is rising rapidly. The latter, together with emergency shipments of necessities translated into an aid package amounting to at least \$250 million in the first half of 1981.

55. Soviet-Afghan trade relations increased considerably since the establishment of a Marxist régime, and particularly in 1979 and 1980. Soviet exports grew from 139.3 Roubles in 1978 to 184.2 million in 1979, and 247.7 million in 1980. Soviet imports increased from 75.7 million Roubles in 1978, to 139.7 million in 1979 and 257.0 million in 1980. Thus bilateral trade balance moved from a position of Soviet surplus until 1978, to equilibrium in 1979, and deficit in 1980. Consequently, despite its aid, the Soviet Union is draining resources from Afghanistan.

56. On the other hand, it cannot be plausibly maintained that the invasion of Afghanistan has entailed economic advantages in the short term. It is true that that country was seen first as a potential and then an actual supplier of fossil fuels and minerals, especially since Soviet experts, looking for oil, discovered natural gas in the 1960s. Subsequently, Russian geologists found numerous other mineral resources in areas relatively close to the Soviet border, i.e. near Central Asian and Kazakh industrial centres.

57. However, Afghan gas reserves were estimated at only about 120 bn cubic meters in 1978, as against an annual production of 435 bn m³ in the USSR. Despite this relatively small size of gas reserves in absolute terms, Afghan gas has been of considerable regional importance to the Southern part of Central Asia. Afghan gas has been exported to Soviet Central Asia since 1967/68 through a Soviet-built pipeline. Annual exports have averaged about 2.5 bn m³ (80% of total production, the rest being devoted to domestic uses). Recent information points to a more than 100% increase in Afghan exports to the USSR (5.2 bn m³ annually). Moreover, the whole of Afghan production is now exported to the USSR, whilst domestic requirements are to be covered by coal.

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58. Against this the heavy damage suffered by the Afghan infrastructure and the present direct and indirect costs of conflict and resupplying the Kabul's armed forces, not to mention the human toll paid by the Red Army, have to be taken into account. On balance, the operation nets out in a short term economic loss. Therefore, to explain Soviet aggression, political and strategic considerations are paramount - possibly together with some long term economic advantage.

South Yemen

59. As in the case of the other ODCs, Soviet economic aid for South Yemen has not stimulated the economy significantly. Soviet assistance has concentrated on agriculture and fisheries. In return for its aid the USSR was granted the right to use the port of Aden for its Indian Ocean fishing fleet. Among the satellites, the GDR is fairly active, concentrating on the development of the agricultural sector, and such sensitive fields as the establishment of the news and telecommunications system. A Cuban presence is to be noted in agriculture and agricultural infrastructure.

60. Whilst Soviet experts were considerably involved in the preparation of the Five-Year Plans (1974-1978 and 1979-1984), East Germans are holding key advisory positions in the government, the security service, the party apparatus, and other mass organizations. Arms supplies to South Yemen were much lower than to Ethiopia (489 million from 1973 to 1980), but sufficient to establish South Yemen as the second client among ODCs and make the country totally dependent on its Communist patron.

V. CONCLUSIONS

61. Soviet economic aid to client states in 1980 reached an all-time peak of \$5,029 million, whilst preliminary data suggest that arms deliveries declined to a more normal level of \$1,230 million following an all-time high of \$2,058 million in 1979(1). As payments for Soviet weapons by clients are at concessional terms (qualifying as aid), the USSR supplied its clients with economic aid and arms estimated at \$6,259 in 1980 - more than half of which was accounted for by price subsidies and commodity aid and therefore represented straight-forward grants. Soviet GNP in 1980 might have been in the vicinity of \$1,500 billion; thus the clients' burden on the Soviet economy equalled 0.4% of GNP.

(1) The 1979 record deliveries were due to a massive resupply of Vietnam, engaged in subduing Cambodia.

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62. However, tenuous such a burden may appear in purely economic terms, it is not negligible, for several reasons. First, the USSR has large underdeveloped areas within its own borders, such as Central Asia, which could significantly benefit from the monies currently spent to pursue expansionist designs. Second, the USSR at large presents evident traces of backwardness, particularly in the consumer sector, and indeed Soviet public opinion continues to show a lack of enthusiasm for the aid programmes. Third, the synthetic figure conceals the most unpleasant facets of the aid burden. In fact, the direct hard currency cost (purchases of grains for Cuba, Cambodia and Vietnam; extra purchases of Cuban sugar for hard currency - although at the unsubsidised world market price) has certainly detrimental effects on the Soviet hard currency balance of payments (which is always strained, although reportedly in the black for the last three years). Fourth, if the opportunity cost of the raw materials the USSR ships to its clients instead of selling time for hard currency is added to the direct disbursements, then the hard currency burden becomes much more sizeable, although not easy to quantify.

63. A tentative conclusion from the factors considered above is that Soviet economic aid to client states - unlike arms, in which the Soviet economy is specialised - may be closer than ever to its limit, particularly in view of the growing, competing economic requirements of Eastern Europe. Therefore, the relationship between the Soviet Union and its non-Communist developing clients (and even its Communist clients) could come under increasing pressure as the need for economic rather than military assistance grows, particularly as a result of post-war reconstruction in African countries. The more so as Communist clients in Indo-China are likely to require (and claim) more Soviet help, and so is Cuba, at least as long as Moscow continues to use Cuban forces overseas.

64. The need to help Eastern Europe in its economic problems, the burden of Communist clients, and the efforts to deeply penetrate a handful of other developing clients leave very little room for other LDCs. Indeed Soviet aid is highly concentrated, and only CDCs and ODCs receive net aid; the other countries taken as a group are reimbursing old debts for amounts exceeding new gross deliveries, so that net aid is negative (see definitions in Chart 1 at Annex). In 1980, this drain of resources from non-client LDCs towards the USSR may have reached \$50 million. In any case, LDCs as a whole (i.e. including Afghanistan and the other four ODCs) received a net \$231 million in 1980. When Communist developing

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countries are brought into the picture, the Soviet Union delivered \$4,965 million, and the Soviet bloc (USSR and East Europe) possibly about \$5,400 million⁽¹⁾, the same as in 1979 (see Table 2 at Annex).

65. For the sake of comparison, in 1980 industrialized Western nations belonging to DAC⁽²⁾ delivered about 5.4 times more net economic aid than the Soviet bloc (\$29,000 million). Despite such disproportion in aid disbursements (which becomes incommensurably higher if Communist clients are excluded), Soviet economic penetration in LDCs is not to be underestimated, the more so as it seconds profitable, efficient, timely, and massive arms sales and is paralleled by large numbers of economic and military experts in place all over the world.

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- (1) This figure includes an arbitrary \$400 million from Eastern Europe to CDCs. The preliminary count for the Soviet bloc as a whole, excluding East European aid to CDCs (which is not available) gives \$4,999 million. It is to be noted that the East European aid programme in developing countries is small and under pressure, but is expected to continue, perhaps at reduced levels, due to the need to maintain contacts, assist Soviet efforts, and help East European trade with LDCs
- (2) DAC is the OECD Committee in charge of co-ordinating aid activities, and is composed of the countries listed in Chart 1 at Annex (geographical groupings)

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TABLE 1 U S S R. - ESTIMATED GROSS AID DELIVERIES TO CLIENT STATES
\$ MILLION 1970-1980ANNEX to
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(Unless specified, economic aid consists of project aid only.)

TABLE 1											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
I. ECONOMIC AID AND SUBSIDIES	941.5	1221	1277	1395	816	1811	2728	3191	4072	4950	5029.8
COMMUNIST DEVELOPING COUNTRIES	910.5	1189	1244	1363	782	1773	2677	3133	4017	4895	4734
<u>CUBA</u> , total	305	484	499	578	331	962	1660	2154	2991	3450	3075
Project aid	162	427	535	404	255	115	115	175	295	405	405
Commodity aid	...	...	...	...	...	...	...	...	...	200	...
Sugar subsidy	161	56	-22	114	-415	523	1145	1624	2452	2329	1250
Oil subsidy	-18	1	-14	4	453	290	378	336	204	495	1420
Nickel subsidy	-	-	-	56	38	34	22	19	40	21	-
<u>MONGOLIA</u> , total	140	220	220	220	241	241	443	439	431	440	445
Project aid	140	220(1)	220(1)	220(1)	220(1)	220(1)	430(2)	430(2)	430(2)	430(2)	430(2)
Oil subsidy	-	-	-	-	21	21	13	9	1	10	15
<u>VIETNAM</u> , total	320	340	380	420	65	470	530	520	515	890	1050
Project aid	320	340	380	420	50	450	500(2)	500(2)	500(2)	500(2)	500(2)
Commodity aid	...	...	...	...	...	...	...	...	...	350	350
Oil subsidy	-	-	-	-	15	20	30	20	15	40	200
<u>CAMBODIA</u> (3)	0.5	-	-	-	-	-	-	-	50	85	134
<u>LAOS</u> (3)	-	-	-	-	-	40	40	20	30	30	30
<u>NORTH KOREA</u>	145(4)	145(4)	145(4)	145(4)	145(4)	60(4)	4(4)	16(4)	...	...	...
OTHER DEVELOPING CLIENTS	31	32	33	32	34	38	50.5	58	55	55	295.8
<u>ANGOLA</u>	*	*	*	*	*	-	1.5	3.0	3.5	3.5	4.5
<u>ETHIOPIA</u>	negl	negl	-	-	4	1	1.5	2.5	3.5	5	3.5
<u>MOZAMBIQUE</u>	*	*	*	*	*	-	0.5	1.5	2.0	1.5	1.5
<u>AFGHANISTAN</u>	28	28	30	29	27	34	40	42	37	34	276(7)
<u>SOUTH YEMEN</u>	3	4	3	3	3	3	7	9	9	11	10.3
II. ARMS DELIVERIES (5)	...	...	...	344	31	201	253	1028	1368	2058	1230
COMMUNIST DEVELOPING COUNTRIES	...	...	...	315	6	31	55	187	288	1645	344
<u>CUBA</u>	...	...	...	10	negl	6	15	62	98	145	54
<u>MONGOLIA</u>	...	...	...	...	...	...	...	...	...	...	...
<u>VIETNAM</u>	...	...	...	290	negl	25	30	100	190	1500	240
<u>CAMBODIA</u>	...	...	...	-	-	-	-	-	-	-	-
<u>LAOS</u>	...	...	...	-	-	negl	10	25	negl	-	50
<u>NORTH KOREA</u>	...	...	...	15	6	-	-	-	negl	-	-
OTHER DEVELOPING CLIENTS	...	...	...	29	25	170	198	841	1080	413	886
<u>ANGOLA</u>	*	*	*	*	*	150	80	95	170	39	99
<u>ETHIOPIA</u>	-	-	-	-	-	negl	50	640	480	54	478
<u>MOZAMBIQUE</u>	*	*	*	*	*	negl	18	72	125	50	129
<u>AFGHANISTAN</u>	...	...	...	-	-	negl	25	14	235	150(6)	-(6)
<u>SOUTH YEMEN</u>	...	...	...	29	25	20	25	20	70	120	180
III. GRAND TOTAL	...	...	...	1739	847	2012	2981	4219	5440	7008	6259.8
Pro-memoria											
Project aid	798.5	1164	1313	1221	704	383	1100	1163	1280	1390	1630.8
Commodity aid	...	...	...	...	...	40	40	20	80	665	514
Price subsidies	143	57	-36	174	112	888	1588	2008	2712	2895	2445

Symbols: - nil ... not available * Country not independent in that year

- Notes: (1) Averages of agreements for 1971-75
 (2) Average of agreements for 1976-80
 (3) Mostly commodity aid, although it probably includes some project aid
 (4) Agreements, not actual deliveries
 (5) Minimum estimates
 (6) Records cover only up to November 1979, before the Soviet intervention.
 (7) \$240 mn represented commodity aid

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TABLE 2

INTERNATIONAL COMPARISON OF NET ⁽¹⁾ ECONOMIC AID DELIVERIES TO ALL DEVELOPING COUNTRIES (INCLUDING COMMUNIST) \$ MILLION - 1970-1980*

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
USSR, total	1075	1349	1453	1664	1141	1850	2748	3213	4089	4951	4965
LDCs (2)	164	160	209	301	359	77	71	80	72	56	231
CDCs	911	1189	1244	1363	782	1773	2677	3133	4017	4895	4734
EAST EUROPE, total	215	249	166	201	10	255	359	365	409	447	(34)
LDCs (2)	49	88	64	35	61	81	54	62	60	52	34
CDCs (3)	166	161	102	166	-51	174	305	303	349	395	...
SOVIET BLOC, total	1290	1598	1619	1865	1151	2105	3107	3578	498	5398	(4999)
LDCs	213	248	273	336	420	158	125	142	132	108	265
CDCs	1077	1350	1346	1529	731	1947	2982	3436	4366	5290	(4734)
CHINA, total	...	...	...	...	...	...	...	...	...	...	...
LDCs	100	157	227	262	206	167	147	121	104	86	67
CDCs	...	...	...	...	...	...	...	...	...	...	...
INDUSTRIAL WEST, total	7644	8603	9574	10715	12827	15182	15345	17211	21662	24322	29000
Official aid	6787	7691	8538	9351	11610	13840	13948	15722	19986	22375	26700
Private grants	858	913	1036	1365	1217	1342	1397	1489	1676	1946	2300

Notes (1) Net of capital repayments
(2) Including developing clients other than communist (ODCs)
(3) Incomplete and tentative data

* Comparisons between Eastern and Western aid can only be approximations since Western aid is project aid, loans, and grants, while Soviet aid includes also sizeable price subsidies.

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MAIN DEFINITIONS

ECONOMIC AID
- The sum of Private Grants and Official Development Assistance. The latter is defined as grants or loans (i) undertaken by the official sector, (ii) at concessional financial terms.

ARMS SUPPLIES
This expression covers both agreements and deliveries of arms. Whenever data are presented, it is specified whether they refer to agreements or deliveries.

BILATERAL FLOWS
Provided directly by a donor country to an LDC.

MULTILATERAL FLOWS
Channelled via an international organisation active in development (e.g. UNDP).

AGREEMENT
A firm obligation by a supplier to furnish assistance, specified as to volume, purpose, financial terms, and conditions.

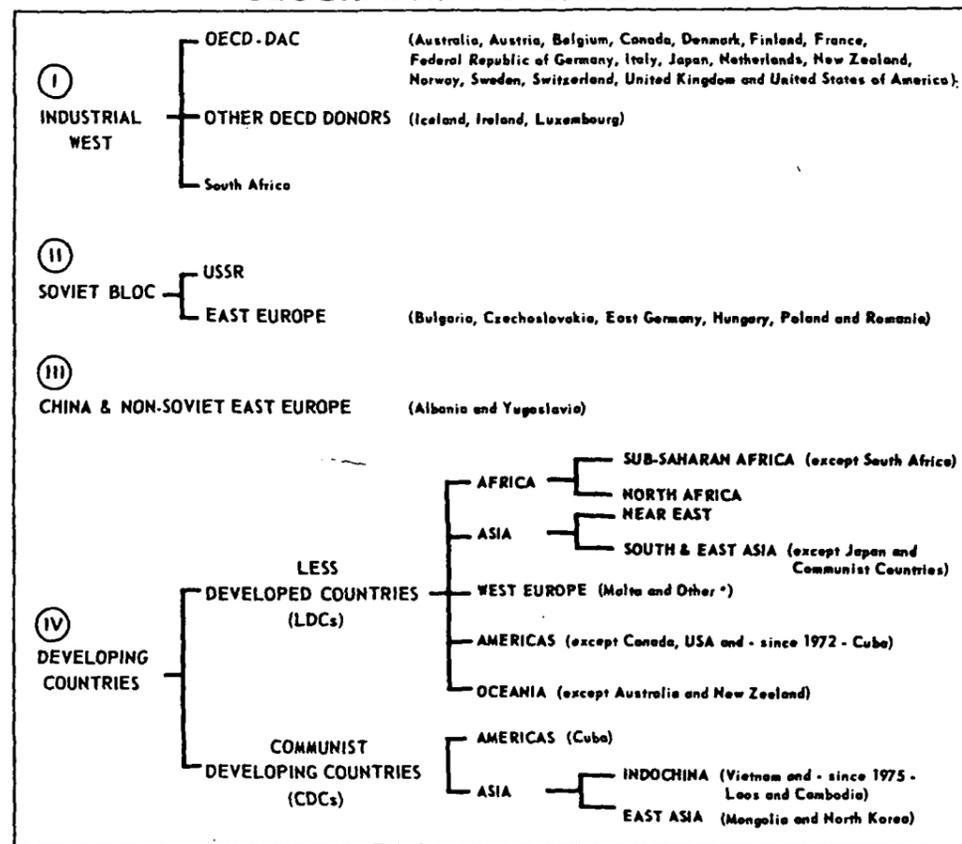
DELIVERY
Actual provision of funds or material. Inverse flows of repayments and interest are not taken into account (therefore the phrase "Gross Delivery" is often used).

DISBURSEMENT
Refers to economic aid and often called "Net Delivery" or "Net Disbursement". It is the actual provision of funds net of capital repayments on earlier loans. It represents the net capital outflow from the donor country, as well as the net capital inflow into the recipient country. Interest payments are not deducted in assessing disbursements, since they are a payment for a service, and not a capital transaction.

NET TRANSFER
The net outflow of aid resources from the donor country, i.e. deliveries net of both capital and interest repayments.

GRANT ELEMENT
The measure of the concessionality (softness) of a loan, as expressed by the present value of an interest rate below the market rate over the life span of a loan. Conventionally the market rate is taken as 10 per cent. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent, it is 100 per cent for a grant, and it lies between these two limits for a soft loan.

**CHART 1
GEOGRAPHICAL GROUPINGS**



* OECD publications include Greece, Portugal, Spain, Turkey and Yugoslavia as aid recipients in this area.