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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

THE "COSTS" OF SOVIET ECONOMIC AID TO DEVELOPING COUNTRIES

Note by the United States Delegation

In 1966, the USSR committed itself to a record \$1.3 billion in new economic aid to developing countries, although actual aid expenditures by the USSR were only one-quarter of that amount. The questions whether these claims on Soviet resources represent a significant burden on the economy, or whether they are a political liability to the leadership, clearly bear on Moscow's capability or willingness to expand its influence in developing countries through economic aid. This memorandum addresses itself to these questions.

Note: In this report, the term commitment or extension is defined as a firm obligation by a donor country to provide goods and services either as a grant or on deferred payment terms. The term disbursement or drawing or expenditure represents the actual international transfer of goods or the use of services. Development Assistance Committee (DAC) donor countries include: Australia, Austria, Belgium, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, the United Kingdom, and the United States. Communist donor countries include: the USSR, Bulgaria, Czechoslovakia, the Soviet occupied Zone of Germany, Hungary, Poland and Romania. The term developing countries includes Greece, Spain, Turkey, and, in principle, all noncommunist and non-OECD countries other than Australia, Finland, New Zealand, and the Union of South Africa. In accordance with DAC criteria, Yugoslavia and Cuba are also treated as developing countries; data on communist aid to developing countries, however, exclude these two countries as recipients. Although this report focuses on the Soviet aid effort, data on other communist aid donors have been included for comparative purposes.

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ABSTRACT

2. The disproportionately large amount of publicity accorded to the Soviet aid program in developing countries has been more a tribute to the skill with which its propaganda value has been exploited than to its size, which is small by any standards. Viewed in the aggregate, the annual flow of Soviet non-military resources to developing countries is modest when compared to that of other developed nations. In 1966, the gross flow of aid from communist nations was about \$425 million, roughly 6 percent of the official flow from Development Assistance Committee (DAC) countries; the official bilateral gross flow from the US, a dozen times greater than from the USSR. Measured as a percent of the GNP, or on a per capita basis, the cost of Soviet aid to developing countries was not only far below that of the US, France the Federal Republic of Germany, or the UK, but also lower than that of Italy, Japan, and Austria, whose per capita GNP's are more comparable.

3. Nor are the terms of Soviet aid overly generous when compared with those of the West. More than half of all Western official assistance is currently extended on a grant basis. In contrast, virtually all Soviet aid is composed of interest-bearing loans, although the willingness of the USSR to accept as repayment the traditional commodity exports of its aid recipient has proved especially attractive to developing countries perennially pressed for convertible currency. The weighted average interest rate of official bilateral loan commitments by the DAC community in 1966 was 3.1 percent; the average maturity period exceeded 23 years. Most Soviet development credits carry slightly lower interest rates of 2.5 - 3 percent, but call for repayment within 10 - 15 years. Moreover, in recent years the USSR has committed a larger share of its new aid in the form of commercial credits which carry somewhat higher rates of interest, and shorter amortization periods.

4. Although any unrequited exports by the USSR of goods and services which have alternative uses in the domestic economy represent a "burden" in the short run, the current level of Soviet aid to developing countries imposes no significant strain on the economy. From time to time, specific industries in the USSR may feel the pressure of aid deliveries, but at no time has the cost of these deliveries amounted to more than one-tenth of one percent of the Soviet GNP. Moreover, scheduled commodity repayments of principal and interest on long-term indebtedness to the USSR have risen rapidly in recent years, amounting to some \$150 million in 1966 - almost half the level of gross aid disbursements in the same year. Food aid has been of minimal proportions, and nonconvertible credits to finance deliveries of Soviet goods

and services have had little impact on the Soviet balance of payments. Indeed, USSR financing of exports of machinery and equipment to developing countries under long-term credits has provided a growing outlet for goods which are unsalable in more sophisticated Western markets.

5. In the USSR no less than in Western countries, however, foreign assistance allocations prove highly vulnerable to austerity moves at home and political fortunes abroad. Even if the current levels of aid expenditures in developing countries do not appear to cut deeply into any one sector of the Soviet economy, they nonetheless compete with many claimants for available resources, both human and material. Soviet planners have been obliged to program the export of goods on credit - largely machinery and equipment - of about \$350 million, annually, against a supply of investment goods stretched tight by demands of military and space programs, pressures to improve domestic living standards, and aid requirements of other communist countries. In the absence of any clearly demonstrable political payoffs in developing countries, it is not surprising that aid expenditures periodically have come under attack as the most expendable means to ease the pressure on domestic resources. The current Soviet leadership, however, appears to view the aid program, much as the Khrushchev regime did, as an important instrument of foreign policy in the third world, and we believe that its economic capabilities would enable it to mount a substantially larger effort if it felt that this would be politically profitable.

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Soviet and Eastern European Economic
Aid to Developing Countries, 1954-66

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I. Magnitude of Soviet AidExtensions

6. Since the inception of communist aid programs in developing countries in 1954, the USSR and Eastern European countries extended or pledged more than \$8 billion in economic assistance to some 40 countries. The Soviet Union has been by far the largest communist aid donor, pledging about \$6 billion, or some three-quarters of the total. Annual Soviet economic aid pledges have tended to increase since 1962, and new Soviet aid offers of \$1.3 billion in 1966 marked the largest annual Soviet aid commitment to developing countries in the dozen-year-old program. (See Chart).

Disbursements

7. There has been a wide and growing gap, however, between communist aid pledges and actual aid disbursements. Cumulative expenditures under communist aid programs through 1966 totaled only \$2.8 billion, or less than 35 percent of the total aid pledged. The USSR has implemented about 37 percent of its commitments; the Eastern European record has been poorer, with less than 28 percent of its aid pledged actually expended. The tendency for annual communist outlays to rise, which was evident through 1964, is no longer apparent. The spending curve has flattened out, and communist aid expenditures have actually declined in each of the last two years. Soviet deliveries of goods and services under previous aid credits are currently running about \$340 million annually; Eastern European disbursements, about \$90 million a year.

8. With drawings on Soviet and Eastern European credits in recent years well below the rate at which new credits have been extended, the backlog of outstanding credits is rising. In 1965, about \$2.8 billion of Soviet credits remained unspent; the backlog a year ago was about \$3.8 billion. The comparable figure for Eastern Europe in 1965 was \$1.5 billion; in 1966, \$1.6 billion.

The Net Flow

9. As cumulative deliveries under Soviet and Eastern European bilateral aid programs have grown, repayments on earlier credits have been increasing. Scheduled repayment of principal and interest on long-term indebtedness to the USSR rose from an estimated \$20 million in 1960 to \$115 million in 1965 and \$150 million in 1966. An estimated \$15 million was due Eastern European countries in 1960, about \$45 million in 1965, and an estimated \$65 million in 1966. Although it is difficult to determine to what degree such repayments have been met on schedule, the net flow (i.e., gross disbursements minus

repayments of principal) of Soviet aid in recent years may have averaged about \$250 million; that of Eastern European countries, about \$50 million. Assuming an increase in Soviet annual gross disbursements to \$500 million in 1970, and projecting a doubling of scheduled annual repayment obligations by developing countries over the next five years, the net flow of Soviet aid in 1970 should not be much greater than it is at present.

Impact on the Soviet Economy

10. Although little is known precisely of the detailed composition of Soviet aid deliveries, Soviet sources have revealed that 70 percent of its economic aid to developing countries has been committed to heavy industry and distributed among branches of industry as shown in column (1):

	(1) <u>Percent</u>	(2) <u>\$000,000</u>
Hydro and thermal power	27.3	422
Oil and gas industry	4.1	63
Coal industry	1.0	16
Ferrous and nonferrous metallurgy	38.6	597
Chemical, pharmaceutical, and rubber	5.2	80
Machine building and metal working	17.5	271
Construction materials	1.5	23
Light industry	1.7	26
Food industry	2.5	39
Other	0.6	9
	<hr/>	<hr/>
Total	100.0	\$1,546

11. On the assumption that the distribution of actual Soviet aid disbursements would not vary too greatly from the distribution of aid commitments during the period 1955-66, it is possible to calculate a rough order of magnitude of the dollar value of Soviet aid deliveries to industry as shown in column (2).

12. Pro-rated over a dozen years, these deliveries are not large and, in the main, do not comprise the most technically advanced Soviet equipment. From time to time, specific industries (e.g., the heavy construction equipment industry) in the USSR may feel the pressure of foreign aid deliveries, but at no time have the costs of these deliveries amounted to more than 0.1 percent of the Soviet GNP. Indeed, as disbursements have levelled off in recent years, the burden of aid deliveries as measured against the GNP has actually declined in each of the last three years. And the more than \$1.5 billion of machinery and equipment exported on credit to developing countries over the course of the program has amounted to little more than 11 percent of total Soviet exports of machinery and equipment during the period (although in recent years this figure has doubled).

13. On the other hand, current Soviet domestic priorities have been focused on the development of chemical, metallurgical machinery, oil and gas, and electric power industries - areas in which foreign aid commitments are heaviest. Moreover, military and space programs have pre-empted manpower, machinery, and materials which are also needed by the civilian sector and the foreign aid program. If aid expenditures do not cut deeply into any one sector of the economy, the broad front of Soviet activities in less developed countries may now increasingly compete, if only at the margin, with many claimants for available Soviet resources, both human and material. Soviet planners are now obliged to program the export of goods on credit - largely machinery and equipment for complete plants - of about \$350 million annually, against a supply of investment goods stretched tight by competing demands of military and space technology, and the need to improve the standard of living.

14. Thousands of specialized and highly trained technicians, designers and engineers leave each year for work on Soviet construction projects abroad, amid increasing competition at home for such critically needed skills in missile and space programs and to improve technology and quality of product in industry and agriculture. And amid periodic friction with the local population, sizable numbers of students from developing countries are studying on scholarships in Soviet universities, whose academic facilities and housing accommodations are already heavily taxed and where many capable Soviet teenagers, directed into the labor force by government educational policies, are denied admission.

15. There is evidence to suggest that the cumulative effect of these and other factors may, at times have generated political issues over foreign aid incommensurate with the real economic costs of the program. These are discussed in Chapter V.

II. A Comparison of East-West Aid

Aid Flows

16. The disproportionately large amount of publicity accorded to communist aid efforts has been more a tribute to the skill with which its propaganda value has been exploited than to its size, which is, on the whole, modest when measured against Western aid. A comparison of the net flow of financial resources to developing countries from Western Development Assistance Committee (DAC) and communist countries, shown in Table 1, reveals that during the years 1965-66 the economic aid provided by communist countries represented less than 5 percent of official Western assistance. If we include the transfer of Western private investment funds (which although not aid in the strictest sense of the term, nevertheless contributes to economic development), then the net flow of long-term financial resources from the West during the period was almost 35 times that from communist sources.

Table 1.

Net Flow (1) of Financial Resources to Developing Countries and Multilateral Agencies

(In million US dollars)

	<u>1965</u>	<u>1966</u>
DAC		
Official	6,203	6,436
of which US	3,627	3,634
Private	4,075	3,429
of which US	1,873	979
Total, Official and Private	10,278	9,865
of which US	5,500	4,613
Communist		
Official	325(2)	265(2)
of which USSR	270(2)	225(2)

(1) The "net flow" is defined as gross disbursements minus repayments (amortization) of principal received during the year.

(2) Estimated.

17. The comparison is only slightly less striking if we compare the aid performance of the US and the USSR, the two largest aid donors in their respective groupings. Net Soviet aid disbursements during 1965-66 was less than 7 percent of the US official aid flow to developing nations.

18. While calculation of the net flow is a better measure of the real impact on the budget and balance of payments of donor countries, the unreliability of repayments data for communist countries makes more valid a comparison of gross flows. Moreover, in the minds of communist policy makers as well as Western finance ministers and legislators, the gross flow is probably a more relevant factor in shaping attitudes and intentions towards appropriating and allocating aid funds. In most cases budgetary requests have to be made for gross expenditures, and they compete in that form with other demands on the Treasury: interest and amortization receipts from earlier loans flow into the general revenue of the government. A comparison of the gross flow of official DAC and communist aid (excluding aid to multilateral agencies) in 1965 and 1966 is as follows, (in million US dollars):

	<u>1965</u>	<u>1966</u>
DAC	6,528	6,744
of which US	3,758	3,899
Communist	440	423
of which USSR	350	332

The Terms of Aid

19. Contrary to the claims of communist propaganda, the terms of communist aid are not overly generous when compared with Western aid giving. Despite a tendency in recent years for the share of grants in Western bilateral assistance to decline, in 1965 more than half of total Western assistance was committed as grants. By contrast, the economic assistance of communist nations has consisted almost entirely of credits that must be repaid with interest. Since the inception of the communist aid effort in 1954, only some 3 percent of total aid has been committed on a grant basis.

20. Table 2 shows the breakdown by interest rate and by maturity of communist loan commitments in the period 1963-65. The bulk of Soviet and East European assistance has been extended at interest rates of less than 3 percent per annum. The weighted average interest rate of official bilateral Western loan commitments in 1965 was 3.6 percent; it declined to the 1964 level of 3.1 percent, however, in 1966.

Table 2.

Interest Rates and Maturities of Communist Loan
Commitments to Developing Countries, 1963-1965
(In percent of total value(1))

	<u>USSR</u>			<u>Eastern Europe</u>		
	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Percentage of loans committed at less than 1 percent	0	8	0	0	0	0
1 percent to less than 3 percent	84	91	84	50	100	83
3 percent to less than 6 percent	16	1	16	50	0	17
6 percent and above	0	0	0	0	0	0
For 25 years and over	0	0	0	0	0	0
For 16 years to less than 25 years	18	0	0	0	0	0
For 6 years to less than 16 years	81	79	97	91	100	94
For less than 6 years	1	21	3	9	0	6

-15-

-15-

(1) The total value of communist loans for which terms are available.

21. On the other hand, most communist credits have been extended for periods of 15 years or less (a major exception during the period 1963-65 was a longer-term Soviet credit to Afghanistan in 1963), while the major shares of Western aid have carried maturities of 15 years or longer, often up to 40 years or more. The weighted average maturity of Western loan commitments was 22.2 years in 1965, down from the 28.3 years in 1964; it was 23.5 years in 1966. The average grace period on loan commitments increased from 4.5 years in 1965 to 5.3 years in 1966. Most Soviet aid agreements provide for repayments to begin one year after completion of deliveries, although in several cases 3-6 years and longer grace periods have been given.

22. It is, of course, true, that the willingness of the USSR and other communist countries to accept as repayments of principal and interest the traditional exports of the recipient country - in some instances in goods produced by the enterprises established with community aid - has proved especially attractive to countries perennially pressed for convertible currency.

III. Aid and TradeAid Tying

23. Although the term "aid tying" is difficult to define precisely, generally, it suggests the application of conditions which require that the goods and services financed by aid may be purchased only in the donor country. From the donor's viewpoint, it allows them to contribute without impairing the foreign exchange position; from the viewpoint of the recipient, tied aid reduces the freedom of choice among suppliers, possibly causing them to accept higher-priced or inferior goods.

24. Most Western aid donors in varying degrees "tie" their foreign aid contributions. Virtually all communist development aid, however, has been extended in the form of nonconvertible interest-bearing credits providing for the delivery of goods and services exclusively by the donor countries. The OECD has estimated the following percentages of gross disbursements of Western aid that are tied to procurement in the donor country. A comparison with the Soviet and Eastern European record in this regard is as follows:

Virtually all	Communist countries
60-80 percent	Austria, Canada Japan, US
30-50 percent	Fed.Rep. Germany, Italy, UK
10-30 percent	Australia, France, Netherlands
less than 10	Belgium, Denmark, Norway,
percent	Portugal, Sweden, Switzerland.

Promotion of Exports

25. Foreign aid may be considered a "cost" to donors insofar as aid-financed exports replace exports which would otherwise have been made. An analysis of the structure of Soviet exports to developing countries suggests that aid transfers have involved little or no displacement of traditional Soviet exports to the area: on the contrary, Soviet longterm credits have generated additional exports, and have provided much of the impetus for increasing trade ties with the area.

26. Although still relatively small in the aggregate, either as a percentage of total Soviet foreign trade (13 percent) or of the total of developing countries (about 2 percent), Soviet trade with developing nations has been the most dynamic sector of Soviet international trade; indeed, Soviet trade with this area has been the most dynamic sector of all world trade flows during the past dozen years.

Since 1954, Soviet exports to developing countries have increased almost eightfold; in 1966 they totaled \$1.2 billion and accounted for more than 40 percent of total Soviet exports to noncommunist countries.

27. This has been particularly true of Soviet exports of complete plants and installations. Soviet capital goods industries are beginning to show a capacity to produce in excess of current requirements. While such exports find new buyers in the industrial West, they find readier outlets in the less sophisticated markets of developing countries, particularly if the USSR is willing to help finance such exports with long term credits. In recent years, and largely under the trade-creating stimulus of Soviet aid deliveries, developing countries have accounted for more than 90 percent of Soviet exports of machinery and equipment to noncommunist countries, and for virtually all of Soviet exports of complete plants to the area.

28. A comparison of Soviet aid disbursements and Soviet exports to developing countries (see Table IV) clearly reveals the major role played by aid deliveries in Soviet export expansion to the area. Although the data for aid disbursements include aid transfers which do not produce immediate trade-creating effects (for example, credits for geological surveys, feasibility studies, and personnel training), it can reasonably be assumed that all Soviet exports of complete plants were aid-financed. Thus, during the period 1960-65, roughly between 30 percent and 40 percent of Soviet exports to developing countries flowed as a consequence of Soviet credits. Stated another way, Soviet exports to developing nations during the period would have been, at a minimum, about \$1 billion lower were it not for Soviet long-term credits.

29. In recent years the USSR has turned increasingly to the use of commercial credits extended by Soviet foreign trade enterprises. Such export credits are essentially designed to promote Soviet capital goods exports; they are not primarily concerned with financing economic development. These Soviet credits carry shorter amortization periods (generally 5 to 7 years, or under special circumstances up to 8 or 10 years) and higher rates of interest (up to 4 percent per annum) than traditional Soviet development aid. In 1966, about one-third of all Soviet credits extensions to developing countries were committed in the form of commercial credits.

Table 3.

Relationship Between Soviet Economic Aid Disbursements, total Exports, and Exports of Complete Plants to Developing Countries, 1960-65

(In million US \$ and percent)

	<u>Exports</u>	<u>Aid Disbursements</u>	<u>Disbursements as % of Exports</u>	<u>Exports of Complete Plants</u>	<u>Complete Plants as % of Exports</u>
1960	346	107	30.9	69	19.9
1961	507	189	37.3	139	27.4
1962	569	260	45.7	183	32.2
1963	762	355	46.6	221	29.0
1964	784	363	46.3	297	37.9
1965	918	350	38.1	284	30.9
1960-65	3,886	1,624	41.8	1,193	30.7

IV. Other Soviet Economic Aid Commitments

Communist Clients

30. During the dozen years 1955-66, in which the USSR extended almost \$6 billion in economic credits to noncommunist developing countries, it committed some \$6.9 billion in economic assistance to other communist nations. During the period Cuba, a recipient of \$1.4 billion in Soviet aid extensions, and Bulgaria, Mongolia, and the Soviet occupied Zone of Germany each with Soviet aid commitments of roughly \$1 billion, together accounted for two-thirds of Soviet aid extensions to communist countries. (See Table 4.)

31. A disaggregation of the data, however, reveals some significant changes in the direction of Soviet aid during the period under review. For example, during the six-year period 1955-60, Eastern European CEMA countries received 55 percent of Soviet economic aid extensions to communist countries and 30 percent of Soviet economic assistance to all countries. During the period 1961-66, however, the share of the European CEMA countries in new Soviet aid extensions to communist countries declined to only 34 percent; and their share of total Soviet economic aid commitments was less than 18 percent. During the past six years Cuba, Mongolia, North Vietnam, and Yugoslavia have received twice as much Soviet aid as has the European CEMA group. Moreover, each year since 1958, Soviet aid extensions to noncommunist developing countries have been larger, often by a considerable margin, than Soviet aid to Eastern Europe. Always vociferous claimants to a substantial share of Soviet economic largesse, it is not surprising the elements in Eastern Europe should betray some resentment at the increasing flow of Soviet resources to other communist regimes and, particularly, to noncommunist countries.

Multilateral Agencies

32. Moscow has long underscored both in word and deed its strong preference for bilateral aid giving. The USSR has not participated in such multilateral aid agencies as the International Bank for Reconstruction and Development or its two affiliates, the International Development Association and the International Finance Corporation. Similarly, it rejected participation in the Asian Development Bank. The only international aid organization to which most communist nations regularly contribute is the United Nations Development Program (UNDP).

33. In 1966 Soviet pledges (including those from the Byelorussian SSR and the Ukrainian SSR) to the UNDP were \$3.5 million; and pledges by all communist countries accounted for less than 3 percent of total contributions. By contrast, US pledges to the UNDP in 1966 amounted to \$63 million, roughly 40 percent of total pledged contributions. Virtually all communist contributions, moreover, have been made in non-convertible currencies, thereby restricting their use to donor countries.

Table 4.

Soviet Extensions of Economic Aid to Communist Countries, 1955-1966

(In million US dollars and percent of total)

	<u>1955-1960</u>		<u>1961-1966</u>	
	<u>Million US \$</u>	<u>Percent</u>	<u>Million US \$</u>	<u>Percent</u>
<u>Total</u>	<u>2,981</u>	<u>100.0</u>	<u>3,884</u>	<u>100.0</u>
<u>Eastern Europe</u>	<u>1,640</u>	<u>55.0</u>	<u>1,313</u>	<u>33.8</u>
Bulgaria	371		733(1)	
Czechoslovakia	14		0	
Soviet occupied Zone of Germany	515		475	
Hungary	345		(2)	
Poland	300		78	
Romania	95		28	
<u>Far East</u>	<u>798</u>	<u>26.8</u>	<u>284</u>	<u>7.3</u>
Communist China	320		45	
North Korea	118		(2)	
North Vietnam	360		239	
<u>Other Communist</u>	<u>543</u>	<u>18.2</u>	<u>2,287</u>	<u>58.9</u>
Albania	65		0	
Cuba	100		1,298	
Mongolia	306		753	
Yugoslavia	72		236	

Years	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Extensions	107	754	718	335	99	969	860	224	507	860	936	499

(1) Minimum

(2) Assistance provided but amount unknown.

V. Soviet Foreign Aid and Its Critics

34. Statistical aggregations of Soviet economic aid commitments and disbursements are, at best, only partial measures of the real impact of foreign aid. In the USSR, no less than in Western countries, foreign assistance allocations prove highly vulnerable to austerity moves at home and political fortunes abroad. Against the backdrop of domestic problems over the allocation of resources and in the absence of any clearly demonstrable political pay-offs in developing countries, there has been evidence (largely inferential, to be sure) that aid expenditures by the USSR periodically have come under attack as the most expendable means of easing the pressure on internal resources.

Domestic Resentment

35. Domestic resentment against extensive Soviet foreign aid ventures has apparently provided common ground for (1) theoreticians and others who distrust the uncertain political and ideological inclinations of many of Moscow's aid recipients and give only nominal support to the idea of economic aid as a significant factor in the national liberation struggle; (2) less politically minded economists and officials who question the economic rationale of the export on credit of capital resources that might slow the pace of domestic capital formation in return for lesser priority foodstuffs and consumer goods; and (3) the general public for whom often promised improvements in living standards have remained largely unfulfilled because of increasing strains on the nation's resources. Recent Soviet sources have hinted that the program has become an issue within the leadership, between the pragmatic Kosygin and the more ideologically orientated Brezhnev. Among those who are reported to share Kosygin's point of view are Ministry officials who resent the added burden of foreign aid commitments on their Ministry's budget and human and material resources, and which detract from their efforts at home.

36. During the earlier years of the program, Soviet leaders sought to mollify such anti-giveaway sentiment by appeals to the wider perspectives of "proletarian industrialist duty", maintaining that Soviet aid was not designed to be very "profitable" from the commercial point of view. Khrushchev himself explained some year ago that "while the Soviet Union and other socialist countries consider it their duty to help underdeveloped countries we cannot say that our economic relations are based on mutual advantage. Generally speaking from the commercial standpoint, our economic aid and technical assistance to underdeveloped countries is even unprofitable to us."

37. In a television speech to the nation in May 1964, reporting on his visit to the UAR during which he granted Cairo \$280 million in new economic aid, Khrushchev similarly admitted that "when the Soviet Union helps the young developing countries, giving them a portion of the wealth amassed by its own labor it is limiting its own possibilities for a certain period of time". But, he added, "we would be poor communists, poor internationalists, if we thought only of ourselves". Moreover, he assured his listeners that the "assistance we are giving to the peoples of the developing countries will be repaid a hundred-fold", and that "each of us well understand the expression: 'Better to have a hundred friends than a hundred rubles'". Khrushchev's efforts to "sell" foreign aid should strike a responsive chord in many Western aid administrators who have sought to win aid appropriations from reluctant legislatures.

38. Significantly, as military and space expenditures have risen and, in particular, as Soviet military aid commitments to noncommunist countries and North Vietnam have received more notoriety, Soviet officials have been obliged to explain foreign aid in a more effective fashion. Soviet Foreign Trade Minister Patolichev recently replied to a charge by a reader of the newspaper Trud that the USSR was delivering equipment to developing countries "at very low prices" by asserting: "I should like to make it quite clear that we never sell at a loss to any countries in Asia, the Middle East, or any other country, for that matter. Our foreign trade is based on the principle of mutual advantage and equality." Patolichev's reply was in marked contrast to the self-sacrificing tone of Khrushchev's statements cited earlier. Official Soviet comment also has tended to lay increasing stress on the economic advantages which accrue to the USSR from aid outlays. Commodity repayments of past loans, for example, are now frequently characterized as helping the USSR "to implement its economic development plans and more fully meet the requirements of the population".

39. It seems reasonable to surmise that the frequently defensive efforts by Soviet leaders to "sell" their foreign aid program would not have been necessary unless the program were being seriously questioned.

Criticism from Abroad

40. An undercurrent of resentment against the alleged burden of foreign economic aid is also evident among other communist countries whose foreign aid programs, if not directed by Moscow, were certainly inspired by it. In Hungary, Poland, and particularly in Czechoslovakia (the latter's commitment to foreign aid, measured either in absolute terms, on a per capita basis or as a percentage of GNP, is the highest in Eastern Europe) there are persistent press and other reports of public resentment against foreign aid, especially

aid to Cuba. The organ of the Central Committee of the Hungarian Communist Party, for example, has in the past felt obliged to respond to "those comrades in our party who do not understand the necessity of aid to young national states", and who maintain "it is incorrect to support former colonial countries where they persecute progressive forces, ban the Communist Party and even hound to death the communists".

41. Similarly, the Czech press has called upon Foreign Trade Ministry officials and others to answer questions from the public such as: "Where might we be if we did not feed so much money to Africa?", or assertions to the effect "that our economic difficulties are caused by inflated foreign trade with the so-called developing countries and by the aid we give them". Indeed, Rude Pravo has complained that "these opinions are sometimes expounded in such a colorful manner that the uninitiated could get the impression that Czechoslovakia is keeping at least half the inhabitants of our globe". Although press justifications for foreign aid, like those in the USSR, are an admixture of ideological appeals to communist responsibility and economic advantages to be derived from expanding trade and aid ties with developing countries, Rude Pravo parenthetically, but significantly, added in the aforementioned article: "Of course, the credits we grant must be supportable by our economy, and in the past our possibilities may not have always been correctly gauged".

42. Communist China, of course, has singled out Soviet foreign aid to noncommunist countries as a special target within its overall objections to Soviet strategy in the area. Unable to compete with the large Soviet assistance program (Soviet aid disbursements are more than six times those of China), Peking has waged an unremitting campaign to discredit the quality and intent of Soviet foreign aid. Premier Chou En-lai's "Eight Principles" of foreign aid which he advanced on his much publicized visit to Africa in 1964 - which noted Chinese respect for the sovereignty of aid recipients, the absence of political conditions, interest-free or low-interest loans, generous concessions on repayments, quality equipment at world market prices, and the exemplary conduct of Chinese technicians - were an ill-disguised effort to draw invidious comparisons between Chinese and Soviet foreign aid practices, and to feed the latent apprehensions of many Soviet aid recipients.

43. Finally, implicit criticism of Soviet aid policies, particularly in Latin America, have emanated from Cuba, among the largest beneficiary of Soviet largesse. Recent Soviet economic overtures to several Latin American governments provoked Castro in early 1967 to comment that "whoever helps those oligarchies where guerrillas are fighting will be helping to suppress the revolution". Several months later, at the Cuban-sponsored Latin American Solidarity Organization Conference in Havana, the Cuban LASO delegation initiated a resolution (never issued as an official conference statement) censuring the policy of certain "socialist" countries which give credits and technical aid to "dictatorships" and "oligarchies" in Latin America.

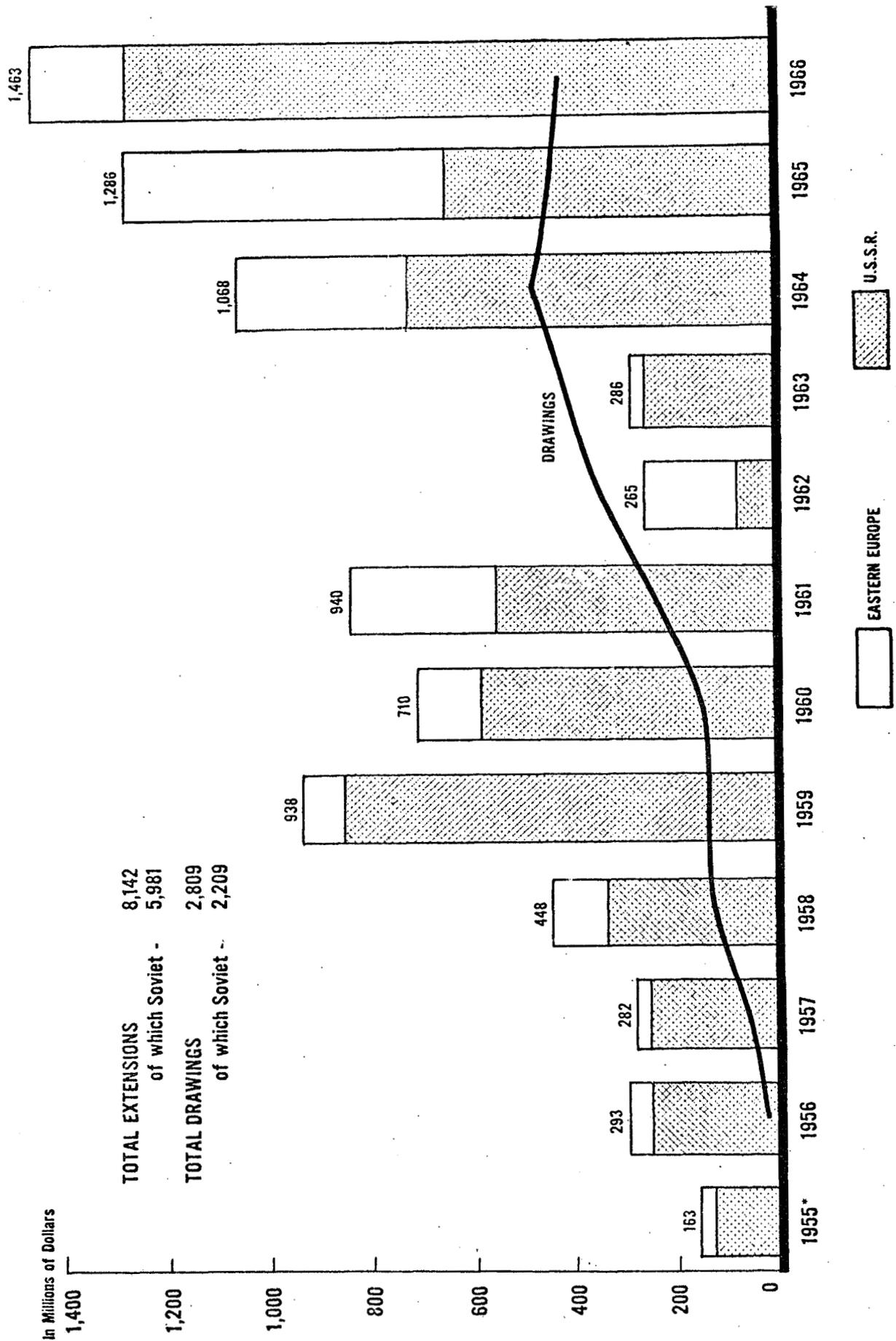
VI. Prospects

44. Although we have used the word "burden" as applied to Soviet aid, in a sense, the term is inappropriate: Soviet economic assistance has been extended in exchange for expected benefits. In the minds of Soviet policy makers, aid to developing countries is as much a political as an economic phenomenon, and its investment costs are calculated largely in terms of their political dividends. We believe that the current Soviet leadership views the aid program, much as its predecessor did, as an instrument of foreign policy indispensable to the great power role it is determined to play in the developing world, and that its economic capabilities would enable it to mount a substantially larger effort if it felt that this would be politically profitable.

45. Events in Ghana, Indonesia, and elsewhere, however, clearly have demonstrated to Soviet leaders the ephemeral nature of political influence despite substantial aid outlays, and in the pages of Soviet theoretical journals there is evident a growing pessimism about any short-term solution to the fundamental economic problems of the developing countries. In contrast to the extravagant optimism which characterized Soviet aid thinking in earlier years, Moscow now seems disposed to assess more realistically just what it can expect from its economic aid commitments abroad. Soviet leaders have evidenced a more cautious and businesslike approach to aid giving. They have reviewed more critically than in the past the feasibility and repayments prospects of proposed new aid projects. And they have committed a larger share of new aid as commercial credits, designed primarily to promote Soviet exports of capital equipment. Although these more stringent criteria for aid giving, coupled with the record aid extensions over the past few years, may tend to slow the pace of new Soviet aid commitments, implementation of the large backlog of unexpended credits alone could maintain the program at the current rate of expenditures for some time to come.

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SOVIET AND EASTERN EUROPEAN ECONOMIC AID TO DEVELOPING COUNTRIES, 1954 - 1966



*Including 1954