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ECONOMIC COMMITTEE

COMMUNIST AID TO LESS DEVELOPED COUNTRIES
OF THE FREE WORLD IN 1975

Note by the Secretary

The attached paper, circulated by the United States Delegation, can be considered as a major contribution in preparation to the reinforced meeting to be held in June 1977, on the subject.

(Signed) M. van den BULCKE

NATO,
1110 Brussels.

This document consists of: 61 pages

N A T O S E C R E T

Foreword

In this report the term *Communist countries* refers to the USSR, the People's Republic of China, and the following countries of Eastern Europe—Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

The term *less developed countries of the Free World* includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries of East Asia except Hong Kong and Japan; (3) Malta, Greece, Portugal, and Spain in Europe; (4) all countries in Latin America except Cuba; and (5) all countries in the Near East and South Asia.

The term *extension* refers to a commitment to provide goods and services either on deferred payment terms or as grants. Assistance is considered to have been extended when accords are initialed and constitute a formal declaration of intent. The term *drawings* refers to the delivery of goods or the use of services. Estimates of the value of Communist military agreements and deliveries are in Soviet trade prices. These prices are currently under review.

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Communist Aid to Less
Developed Countries
of the Free World
1975

OVERVIEW

Soviet military assistance dominated Communist relations with the LDCs in 1975. Arms aid was especially important in supporting Moscow's political objectives in the Middle East and the African countries of Angola and Somalia. Communist economic programs meanwhile continued as a low-key effort. In fact, Communist countries received more on their aid account with LDCs than they disbursed, as Iran provided aid to them for the first time. Highlights of the Communist military and economic programs were:

- A signing of Soviet arms agreements with Algeria and Syria and a continuation of heavy weapons deliveries to Iraq, Libya, and Syria.
- A cutoff of Soviet military deliveries to Egypt at midyear.
- A heavy infusion of Soviet military support for the Marxist faction in the Angolan struggle.
- A signing of large new Soviet economic and military accords with Somalia.
- A large increase in Soviet economic aid commitments to the border countries of Afghanistan and Turkey (see Appendix A). These two received nearly 85% of 1975 Soviet commitments. Moscow also signed its largest military agreement ever with Afghanistan.
- A sharp rise in the number of Communist technicians in LDCs. About a 20% larger contingent of military advisors followed new equipment into areas where Soviet interest was high, especially Syria, Libya, Mozambique, and Uganda. The number of economic technicians increased nearly 25% mostly in North Africa and the Middle East.

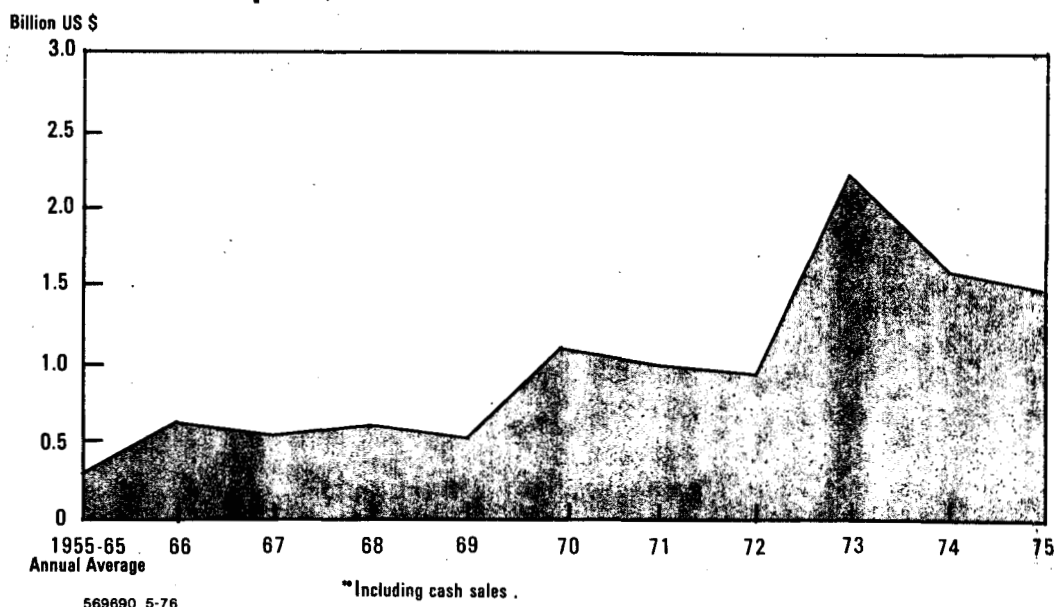
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THE MILITARY PROGRAM

1. Communist countries signed arms accords totaling \$925 million with the Third World in 1975 and delivered \$1.4 billion worth of equipment (see Table 1 and Appendix B). Although these amounts were less than the emergency assistance of 1973 and 1974 in the aftermath of the Arab-Israeli war, they were by far a peacetime record (see Figure 1). Soviet arms agreement again accounted for about

Communist Military Deliveries to Less Developed Countries*

Figure 1



80% of Communist arms supplied LDCs, with Eastern Europe providing small amounts of support equipment to Soviet clients and China's military aid continuing as a marginal program (see Table 2). In a number of countries-including Afghanistan, Egypt, Syria, and India-the USSR was virtually the sole source of military equipment.

2. Although 1975 Communist agreements were less than 10% of global military sales to the Third World, Communist arms deliveries accounted for 22% of the total delivered. The small Communist share in military sales reflects the continuing large orders the West has received from Persian Gulf countries as well as the drop in Communist orders from the record 1973-74 levels. On the other hand,

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Table 1

Communist Military Aid¹ to Less Developed Countries

Million US \$

	Agreements				Deliveries			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total	16,560	14,355	1,625	580	14,270	12,450	1,305	515
1955-65	4,800	4,090	610	100	3,690	3,080	575	35
1966	530	465	15	50	620	500	50	70
1967	680	530	95	55	540	490	25	25
1968	565	490	50	25	595	505	60	30
1969	455	355	95	5	530	455	50	25
1970	1,095	990	40	65	1,100	995	80	25
1971	1,585	1,400	105	80	985	845	75	65
1972	1,115	885	155	75	920	795	50	75
1973	2,010	1,885	100	25	2,235	2,070	85	80
1974	2,800	2,540	180	80	1,580	1,445	120	15
1975	925	725	180	20	1,475	1,270	135	70

1. Includes all agreements for military supplies provided for cash, under credit arrangements, and as grants.

Table 2

Communist Military Agreements with Less Developed Countries,
Extended and Drawn,¹ 1955-75

Million US \$

	Agreements Signed				Equipment Delivered			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total	16,560	14,355	1,625	580	14,270	12,450	1,305	515
Africa ²	1,990	1,825	50	115	1,405	1,255	50	100
Algeria	345	345	....	....	345	345	....	....
Burundi	Negl.	Negl.	....	Negl.	Negl.	Negl.	....	Negl.
Central African Republic	10	10	....	....	5	5	....	....
Chad	Negl.	Negl.	....	....	Negl.	Negl.	....	....
Congo	25	15	Negl.	10	20	10	Negl.	10
Equatorial Guinea	5	5	....	....	5	5	....	....
Gabon	Negl.	....	....	Negl.	Negl.	....	....	Negl.
Gambia	Negl.	Negl.	....	Negl.	Negl.	Negl.	....	....
Ghana	10	10	Negl.	10	10	Negl.
Guinea	55	50	Negl.	5	55	50	Negl.	5
Guinea-Bissau	5	5	5	5

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Table 2
Communist Military Agreements with Less Developed Countries,
Extended and Drawn,¹ 1955-75
(Continued)

Million US \$

	Agreements Signed				Equipment Delivered			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Libya	800	800	....	....	425	425	....	....
Mali	20	20	....	Negl.	15	15	....	Negl.
Morocco	95	75	20	....	40	20	20	....
Nigeria	85	75	10	....	75	65	10	....
Sierra Leone	5	Negl.	....	5	Negl.	....	....	Negl.
Somalia	185	185	Negl.	....	165	165	....	....
Sudan	105	85	10	10	85	75	5	5
Tanzania	150	75	5	70	80	5	5	70
Togo	5	....	....	5	....	....	....	....
Uganda	65	60	5	....	60	55	5	....
Zaire	5	....	....	5	5	....	....	5
Zambia	15	10	....	5	10	5	....	5
East Asia	1,135	880	220	35	1,120	875	210	35
Burma	Negl.	Negl.	Negl.	....	Negl.	Negl.	....	....
Cambodia	25	10	....	15	25	10	....	15
Indonesia	1,110	870	220	20	1,095	865	210	20
Latin America	135	135	....	....	85	85	....	....
Peru	135	135	....	....	85	85	....	....
Near East and South Asia	13,300	11,515	1,355	430	11,655	10,235	1,040	380
Afghanistan	645	615	30	....	475	450	25	....
Bangladesh	35	35	....	....	30	30	....	....
Cyprus	25	20	5	....	20	20	Negl.	....
Egypt	3,865	3,425	440	....	3,810	3,400	410	....
India	2,115	1,920	195	....	1,780	1,640	140	....
Iran	825	825	....	....	590	590	Negl.	....
Iraq	2,225	1,870	350	5	1,915	1,700	210	5
Lebanon	10	5	5	....	10	5	5	....
Maldives Islands	Negl.	Negl.	....	....	Negl.	Negl.	....	....
Nepal	Negl.	....	....	Negl.	Negl.	....	....	Negl.
North Yemen	120	85	35	....	120	85	35	....
Pakistan	515	70	35	410	425	30	35	360
South Yemen	125	115	10	....	125	115	10	....
Sri Lanka	30	15	....	15	30	15	....	15
Syria	2,765	2,515	250	Negl.	2,335	2,165	170	Negl.

1. Data have been rounded to the nearest \$5 million and because of rounding may not add to the totals shown.
2. Excludes aid to Angola because it was not an independent established government.

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Communist deliveries were a larger share of the total because the Soviets were able to fill orders mainly from inventories while new Western orders are taking years to produce and deliver.

3. A trend toward cash sales was the most notable change in Soviet military hardware arrangements with the Third World. The change basically reflects sales to Arab countries receiving financial support from the oil rich Arab states and sales to OPEC countries. Moscow thus has developed a new source of foreign exchange while still concentrating its military program in the strategic middle Eastern and North African area.

4. In 1975 Moscow also used its military program to promote political and military objectives elsewhere. It provided arms to Angola, Mozambique, and Somalia in Africa and continued to strengthen the armies of the LDC border states, such as India and Afghanistan. Moscow's efforts were not always successful, however. Its attempt to force Egypt to resolve outstanding differences by denying spare parts and other essential military items backfired.

Arab States Still Moscow's Prime Customers

5. About 80% of Soviet military hardware sold to the LDCs went to the Middle East and North Africa, and about two-thirds of Soviet military technicians were stationed in this important area. The USSR signed its first military agreement with Algeria since 1971. Major deliveries under the new agreement had not begun by yearend, although small shipments had been forwarded under earlier accords.

6. The only major new commitment to the Arab belligerents was a \$300 million accord with Syria. Deliveries to the area remained high, however, reaching a peacetime peak. Libya drew heavily on its \$800 million 1974 order, with a resulting buildup of modern equipment that is giving Tripoli arsenal status among Arab belligerents. Deliveries to Iraq and Syria dropped sharply from record 1973-74 levels, reflecting a winding down of the Middle East crisis and the need to assimilate the advanced hardware already received.

7. Moscow's withholding of arms supplies, as a weapon in its debt negotiations with Cairo, was a major step in the deterioration of Soviet-Egyptian relations. Before the USSR cut off major deliveries to Cairo at midyear, Egypt had received its first MIG-23s under 1973 accords. Meanwhile, Moscow lost its largest arms customer in the Third World as Cairo shopped for alternative supply sources and early in 1976 abrogated its Friendship Treaty with the USSR.

Soviet Deliveries in 1975 to:

Syria (\$190 million) included:

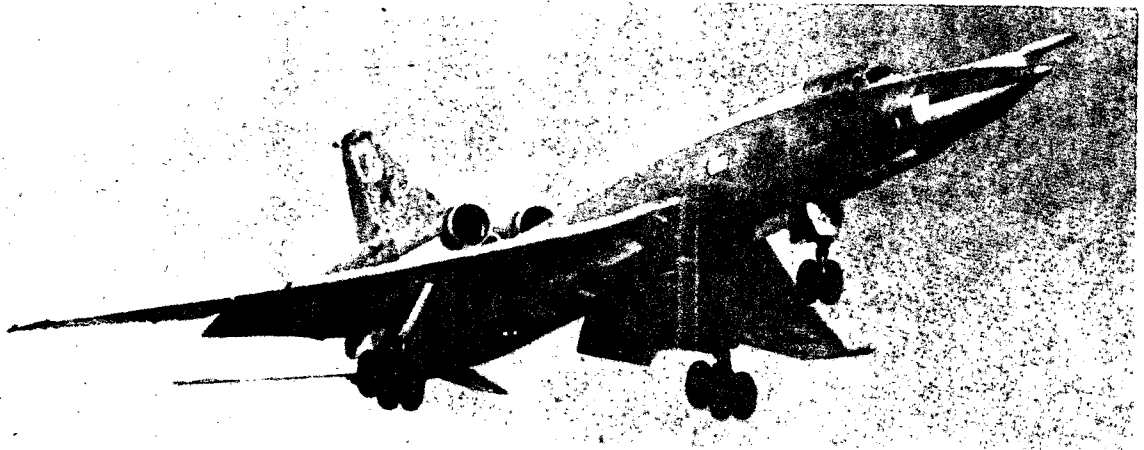
- SU-7/20 jet fighters
- T-62 tanks
- Petya-class patrol boat
- BMP armored infantry vehicles

Iraq (\$250 million) included:

- MIG-23 fighter aircraft
- FROG-7 tactical surface-to-surface rocket launchers
- Osa-class guided-missile patrol boats
- BMP armored infantry combat vehicles

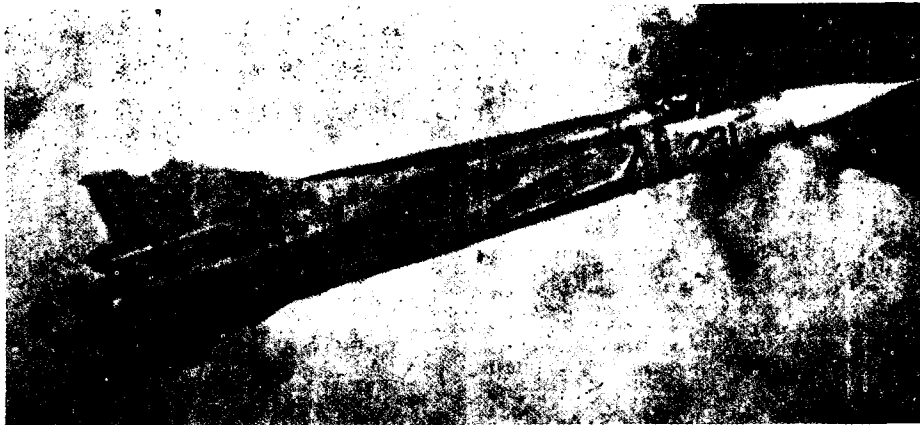
Libya (\$200 million) included:

- MIG-23 fighter aircraft
- T-62 tanks
- SA-2 missiles
- 63 BMP armored infantry vehicles
- 6 TU-22 bombers



TU-22 Bomber

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MIG-23

USSR Upgrades Inventories of Border States

8. Moscow reaffirmed its support for its Asian neighbors in 1975, with new agreements to modernize Afghanistan's armed services and to provide India with a continuing stream of sophisticated equipment and components for domestic assembly of MIGs. The USSR continues as Afghanistan's major supplier of military goods. Kabul, one of Moscow's first military aid clients, signed its largest agreement with Moscow in 1975, a \$125 million order that includes hardware to reorganize its armored divisions.

9. India continues to be almost entirely dependent on the USSR for military equipment. Its 1975 order of at least \$200 million included minesweepers, antisubmarine warfare aircraft, armor, artillery, and surface-to-air missiles. Other new sophisticated equipment which might have been included in the order would bring the total to \$500 million.

Stepped-Up Arms Supplies to Southern Africa

10. Turmoil in sub-Saharan Africa provided opportunities for Soviet arms support. The Popular Movement for the Liberation of Angola received \$55 million of Soviet military supplies and 100 military advisers. Cuban support added another \$30 million in equipment and 7,500 men.

11. Elsewhere in southern Africa, Moscow focused on clients which have offered facilities for Soviet military forces, especially Somalia and Guinea. Somalia's willingness to provide military facilities to the USSR led to heavy Soviet support,

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and Moscow has developed the port at Berbera for Soviet and Somali use. For the third consecutive year Somalia ranked first in sub-Saharan Africa as a Soviet arms recipient. Its position was consolidated with a new \$35 million agreement in 1975. Guinea, which has provided air and naval facilities for Soviet reconnaissance units and a stopover point for the Angolan airlift, received \$15 million in military equipment. The USSR, which is replacing China as Tanzania's major supplier, began deliveries under 1974 agreements.

12. A study is under way to reexamine the values of Soviet military sales and deliveries to LDCs. Prices of equipment, from which these values were derived, are based largely on pre-1970 sources, which may now be out of date, and on costs of comparable US equipment in the case of items first introduced in recent years. The study is to be completed in 1976 (see Appendix B).

Eastern Europe: Following the Soviet Lead

13. Eastern Europe extended \$180 million in military aid to LDCs in 1975, about the amount of the previous year. As in the past, most of the accords were with major Soviet clients, Syria and Iraq accounting for two-thirds of the total.

14. East European deliveries to the Middle East increased sharply during the year because of large shipments of support material and ground-force equipment to Iraq, Libya, and Syria.

China: A Minor Supplier

15. Peking's commitments, which have never been large, fell to only \$22 million in 1975, from an annual average of \$65 million in 1970-74. Deliveries, however, reached \$70 million because of shipments of several squadrons of MIG-19 fighters and large numbers of T-59 tanks to Pakistan under old accords. These accounted for about half of all Chinese military exports in 1975.

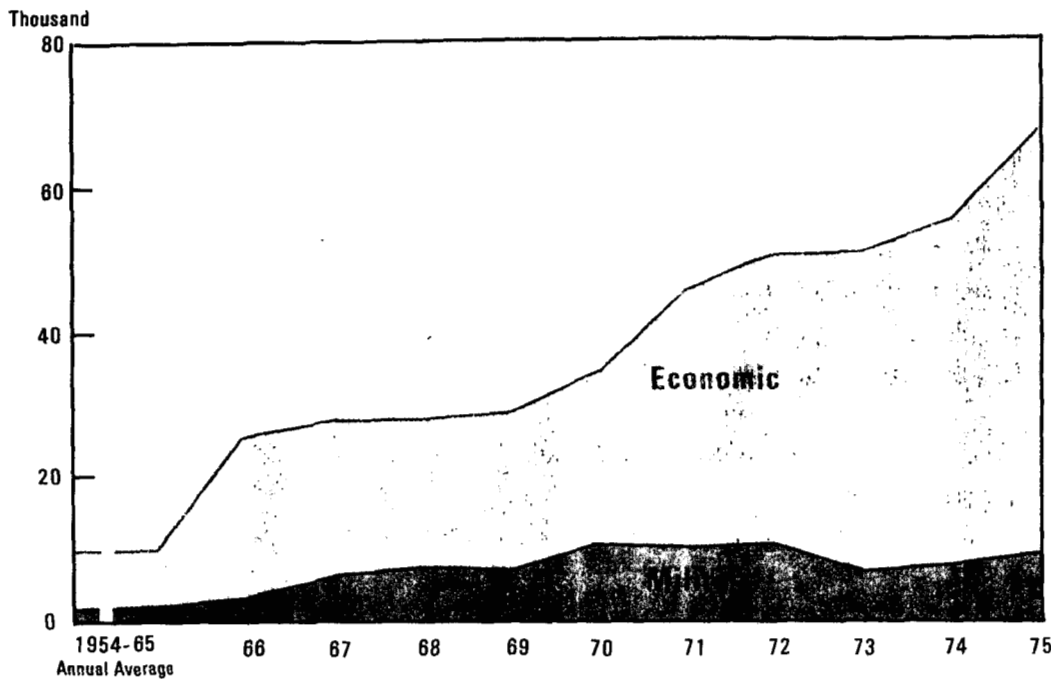
Military Technicians in LDCs

16. The number of Communist military advisors and technicians in LDCs increased about 20% to almost 9,300 in 1975 (see Table 3 and Figure 2). Advisors followed new equipment into Communist-supplied areas and were concentrated in the countries where Soviet military activity was high. Syria received the largest share of the increase and accounted for a third of the 1975 total. Iraq, Somalia, Algeria, and Afghanistan (in that order) employed almost 32%. Somalia had 1,000 technicians in residence, the same number as in 1974. Nearly 60% of China's 1,200

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Communist Technical Personnel in Less Developed Countries*

Figure 2



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*Present for one month or more.

technicians abroad were in Tanzania, the second largest recipient of Chinese military aid.

Military Training

17. LDC departures for military training in Communist countries rose almost 30% in 1975. Most of the 4,670 trainees went to the USSR (see Table 4). Libya, Somalia, Tanzania, and a number of African countries that have received small amounts of Soviet aid were responsible for most of the increase. Mozambique, Equatorial Guinea, and Guinea-Bissau sent trainees (510) to the USSR for the first time. The sharpest reduction was in the number from Iraq, which fell to 250 from 700 in 1974. Smaller declines were recorded in Afghanistan, India, and Syria.

ECONOMIC RELATIONS

18. Communist economic aid to LDCs has remained approximately constant since 1971. Commitments in 1975 amounted to \$1.9 billion with Moscow's share unusually high because of sizable credits to Afghanistan and Turkey (see Table 5). China's contribution was well below that of the early 1970s and East European

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Table 3

Communist Military Technicians in Less Developed Countries¹

	Persons					
	1975			1974		
	Total	USSR and Eastern Europe	China	Total	USSR and Eastern Europe	China
Total	9,270	8,060	1,210	7,805	6,745	1,060
Afghanistan.....	350	350	....	425	425	....
Algeria.....	650	650	....	650	650	....
Bangladesh.....	35	35	....	50	50	....
Cameroon.....	20	....	20	....	....	....
Central African Republic..	10	10	....	....	....	....
Chad.....	5	5	....	....	....	....
Congo.....	75	30 ²	45	60	30	30
Egypt.....	215	215	....	200	200	....
Equatorial Guinea.....	130	30	100	25	10	15
Guinea.....	160	110	50	135	110	25
Guinea-Bissau.....	65	65	....	....	....	....
India.....	300	300	....	300	300	....
Iran.....	70	70	....	75	75	....
Iraq.....	1,000	1,000	....	1,000	1,000	....
Libya.....	350	350	....	145	145	....
Mali.....	60	35	25	25	15	10
Morocco.....	10	10	....	....	....	....
Mozambique.....	85	25	60	....	....	....
Nigeria.....	45	45	....	60	60	....
North Yemen.....	120	120	....	120	120	....
Pakistan.....	40	....	40	25	....	25
Peru.....	35	35	....	20	20	....
Sierra Leone.....	10	....	10	10	....	10
Somalia.....	1,000	1,000	....	1,000	1,000	....
South Yemen.....	260	260	....	310	260	50
Sri Lanka.....	15	15	....	....	....	....
Sudan.....	105	80	25	140	90	50
Syria.....	3,080	3,050	30 ³	2,180	2,150	30 ³
Tanzania.....	755	55	700	750	5	745
Uganda.....	100	100	....	30	30	....
Zambia.....	90	10	80	70	....	70
Zaire.....	25	....	25	....	....	....

¹ Minimum estimates of the number of persons present for a period of one month or more. Numbers are rounded to the nearest five.

² 300 additional Soviet military technicians are in the Congo associated with arms deliveries to Angola. The 100 Soviet and 10,000 Cuban technicians in Angola are excluded because it is not an established government.

³ North Korean pilots.

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Table 4

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Military Personnel from Less Developed Countries Trained in Communist Countries¹

Persons

	Departures to Communist Countries								Being Trained as of December 1975			
	1955-75				1975				Total	USSR	Eastern Europe	China
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China				
Total	44,275	37,495	3,990	2,790	4,670	3,950	235	485	4,445	3,630	215	600
Afghanistan.....	3,555	3,305	250	....	300	300	....	....	300	300	....	....
Algeria.....	2,185	1,970	200	15	50	50	....	....	50	50	....	....
Bangladesh.....	395	395	....	....	....	....	....	....	....	....	....	....
Burundi.....	75	75	....	....	35	35	....	....	35	35	....	....
Cambodia.....	30	30	....	....	....	....	....	....	....	....	....	....
Cameroon.....	65	....	....	65	65	....	....	65	65	....	....	65
Congo.....	795	335	45	415	40	....	....	40	190	....	30	160
Egypt.....	6,220	5,665	555	....	....	....	....	....	....	....	....	....
Equatorial Guinea.....	200	200	....	....	200	200	....	....	200	200	....	....
Ghana.....	180	180	....	....	....	....	....	....	....	....	....	....
Guinea.....	1,260	840	60	360	80	70	10	....	110	100	10	N.A.
Guinea-Bissau.....	100	100	....	....	100	100	....	....	50	50	....	....
India.....	2,130	2,085	45	....	140	100	40	....	70	50	20	....
Indonesia.....	9,270	7,560	1,710	....	....	....	....	....	....	....	....	....
Iran.....	280	280	....	....	35	35	....	....	35	35	....	....
Iraq.....	3,190	2,950	240	....	275	250	25	....	305	285	20	....
Libya.....	925	900	25	....	625	600	25	....	325	300	25	....
Mali.....	260	200	10	50	50	50	....	....	75	50	....	25
Morocco.....	145	75	70	....	75	75	....	....	75	75	....	....
Mozambique.....	260	210	....	50	260	210	....	50	260	210	....	50
Nigeria.....	500	465	35	....	135	100	35	....	160	125	35	....
North Yemen.....	1,055	1,055	....	....	100	100	....	....	100	100	....	....
Pakistan.....	340	45	....	295	75	....	....	75	25	....	....	25
Peru.....	250	250	....	....	100	100	....	....	60	60	....	....
Sierra Leone.....	150	....	....	150	....	....	....	....	30	....	....	30
Somalia.....	2,475	2,375	70	30	500	500	....	....	730	730	....	....
South Yemen.....	755	735	20	....	180	180	....	....	180	180	....	....
Sri Lanka.....	10	5	....	5	5	5	....	....	....	....	....	....
Sudan.....	530	310	20	200	100	....	....	100	100	....	....	100
Syria.....	3,830	3,325	505	....	350	300	50	....	300	250	50	....
Tanzania.....	1,920	885	10	1,025	550	490	....	60	435	385	....	50
Togo.....	30	....	....	30	30	....	....	30	30	....	....	30
Uganda.....	775	655	120	....	150	100	50	....	75	50	25	....
Zaire.....	65	....	....	65	65	....	....	65	65	....	....	65
Zambia.....	70	35	....	35	....	....	....	....	10	10	....	....

¹ Data refer to the estimated minimum number of persons departing for training. Numbers are rounded to the nearest five.

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Table 5
Communist Economic Aid Extended to Less Developed Countries
1975

Million US \$

	Eastern Europe									
	Total	USSR	Total	Bulgaria	Czecho- slovakia	East Germany	Hungary	Poland	Romania	China
Total	1,907	1,299	337	10	5	20	117	3	182	271
Africa	353	64	109	10	....	19	80	....	....	180
Algeria	89	....	89	....	....	19	70	....	....	....
Chad	1	1	....	....	....	....	....	....	....	....
Congo	10	....	10	10	....	....	....	....	....	....
Ethiopia	1	1	....	....	....	....	....	....	....	....
Gabon	25	....	....	....	....	....	....	....	....	25
Gambia	17	....	....	....	....	....	....	....	....	17
Guinea-Bissau	17	Negl.	....	....	....	....	....	....	....	17
Malagasy Republic	57	....	....	....	....	....	....	....	....	57
Mali	2	....	....	....	....	....	....	....	....	2
Mozambique	59	....	....	....	....	....	....	....	....	59
Somalia	62	62	....	....	....	....	....	....	....	Negl.
Togo	Negl.	....	....	....	....	....	....	....	....	Negl.
Tunisia	10	....	10	....	....	....	10	....	....	....
Zaire	3	....	....	....	....	....	....	....	....	3
East Asia	37	1	35	....	....	1	2	....	32	1
Laos	6	1	4	....	....	1	2	....	1	1
Philippines	31	....	31	....	....	....	....	....	31	....
Latin America	210	45	155	....	5	....	....	....	150	10
Bolivia	1	....	1	....	1	....	....	....	....	....
Brazil	195	45	150	....	....	....	....	....	150	....
Ecuador	4	....	4	....	4	....	....	....	....	....
Guyana	10	....	....	....	....	....	....	....	....	10
Near East and										
South Asia	1,307	1,189	38	....	....	....	35	3	....	80
Afghanistan	437	437	....	....	....	....	....	....	....	....
Bangladesh	55	45	10	....	....	....	10	....	....	....
Egypt	25	....	25	....	....	....	25	....	....	....
Nepal	80	....	....	....	....	....	....	....	....	80
Pakistan	Negl.	Negl.	....	....	....	....	....	....	....	....
Sri Lanka	57	57	....	....	....	....	....	....	....	....
Turkey	653	650	3	....	....	....	....	3	....	....

commitments reached a new low (see Table 6). Aid deliveries of about \$685 million in 1975 dropped below the yearly shipments since 1971, mainly because of the sharp decline in China's outlays as its major project--the Tan-Zam Railroad--was completed in 1975 (see Figure 3).

Table 6

Communist Economic Aid to Less Developed Countries

Million US \$

	Extended				Drawn			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total¹	20,930	11,058	6,016	3,856	9,282	5,900	1,722	1,660
1954-65	6,398	4,059	1,643	694	2,643	1,908	480	255
1966	1,621	1,189	268	164	504	338	75	91
1967	482	301	132	50	525	307	117	101
1968	662	379	220	63	500	306	123	71
1969	899	482	401	16	519	350	98	71
1970	1,104	200	176	728	567	375	123	69
1971	2,172	1,126	484	563	770	431	151	188
1972	2,168	659	925	584	735	368	112	255
1973	1,712	656	597	459	804	435	141	228
1974	1,805	708	833	264	1,032	665	147	220
1975	1,907	1,299	337	271	683	417	155	111

1. Because of rounding, components may not add to the totals shown.

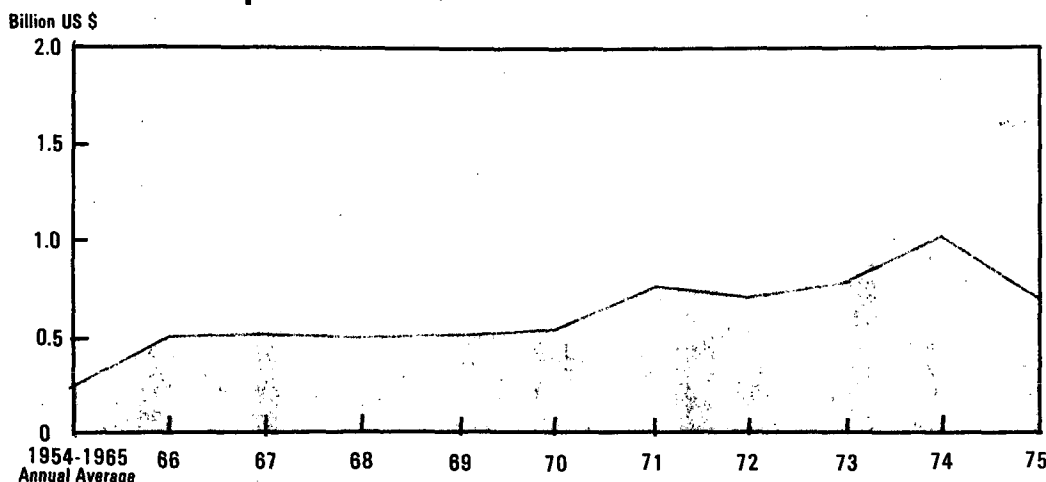
19. Communist economic aid, which has never bulked large in the global aid picture, contributed less than 10% of all official aid agreements with LDCs in 1975, and only 2%-3% of global aid deliveries. Communist aid shipments lag commitments by a much longer time than do those of the West, in part because the Communists provide a higher share of project aid in contrast to greater Western emphasis on balance-of-payments assistance.

20. When aid repayments by LDCs are included, the Communist share of net global aid is less than 2%. For some recipients, such as India, there was actually a net outflow of goods as repayments topped new aid receipts. If capital transfers from Iran to Communist countries are included, Communist countries would be net recipients of economic aid from the LDCs.

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**Communist Economic Aid Drawn by
Less Developed Countries**

Figure 3



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21. Two new avenues of Communist-LDC economic cooperation emerged in 1975: European Communist countries received development aid and they signed their first multilateral agreements through the Council of Mutual Economic Assistance (CEMA).

22. Moscow received its first aid from an LDC when Tehran agreed to furnish credits to build a paper plant in the USSR. East European nations, which had received commercial loans from OPEC countries before, also accepted Third World development credits for the first time in 1975. Bulgaria, Poland, and Romania received commitments of \$780 million from Iran as advanced payments for agricultural products.

23. In March 1975 CEMA signed a general agreement calling for cooperation with Iraq on petroleum development, and in August a similar agreement was concluded with Mexico. Funding and administrative details on these programs are not known, although CEMA's International Investment Bank (IIB) may be the lender of record since it was empowered in January 1974 to disburse development assistance to the Third World.

Soviet Aid—Broader Agreements with Old Clients

24. Soviet economic aid patterns that have emerged in recent years became clearer in 1975. The USSR provided larger individual credits, and broad agreements

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were signed with Turkey and Cyprus that are similar to the "framework" agreements concluded with Argentina and Indonesia in 1974. These give Moscow greater flexibility in implementing project proposals. Follow-on negotiations will be required to set credit terms for each project or elements thereof under these open-ended credits. The result will likely be a mix of terms, including commercial-like trade credits as well as aid loans with repayment periods exceeding 10 years and interest rates of 2½%-3%. These more flexible agreements appear to be a compromise between the concessional umbrella credits common during the 1950s and early 1960s and the well-defined allocations with harder terms often used since then.

25. More than 80% of the \$1.3 billion in 1975 Soviet pledges went to two already large clients—\$437 million to Afghanistan and \$653 million to Turkey. These credits were the largest Moscow had ever extended to LDCs and Afghanistan moved to third rank on the Soviet aid roster and Turkey to fourth place (see Table 7).

26. Continuing its emphasis on expensive, eye-catching heavy industrial public sector projects, Moscow's new assistance to Turkey included expansion of Soviet-built steel and aluminum plants. In Afghanistan, where Soviet development aid is pervasive, the new assistance includes 20 major projects in agriculture, irrigation, electric power, natural gas and petroleum development, mineral and metal processing, and transportation. Aid to Afghanistan carried the exceedingly lenient terms the USSR usually has allowed that country—30 years to repay, including 8 years' grace.

27. Somalia, Sri Lanka, Bangladesh, and Brazil also received Soviet aid in 1975. Sri Lanka's \$57 million credit will assist hydropower development and Bangladesh's \$45 million credit will be used for additional commodity assistance and several new industrial projects. Somalia, a continuing major Soviet target, received its largest commitment (\$62 million) from Moscow, of which \$60 million went toward port and fisheries development. Aid to Brazil reactivated \$44 million of old credits for hydropower development.

East European Aid: Limited in Scope

28. All East European donors, except East Germany and Hungary, reduced their aid commitments in 1975. The \$335 million of East European aid was 60% less than the 1974 level because of large reductions in the amounts provided Latin

Table 7

**Communist Economic Credits and Grants to Less Developed Countries,
Extended and Drawn,¹ 1954-75**

Million US \$

	Extended				Drawn			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
Total	20,930	11,058	6,016	3,856	9,282	5,900	1,722	1,660
Africa	4,743	1,444	1,106	2,193	1,852	784	205	863
Algeria	949	426	431	92	349	258	43	48
Burundi	20	....	....	20	5	....	....	5
Cameroon	79	8	....	71	6	6	....	Negl.
Central African Republic	7	3	....	4	7	3	....	4
Chad	55	5	....	50	6	3	....	3
Congo	64	14	5	45	56	14	2	40
Dahomey	44	....	....	44	Negl.	....	....	Negl.
Equatorial Guinea	25	1	....	24	1	1	....	Negl.
Ethiopia	206	103	17	86	41	21	12	8
Gabon	25	....	....	25	Negl.	....	....	Negl.
Gambia	17	Negl.	....	17	Negl.	Negl.	....	....
Ghana	239	93	104	42	69	31	32	6
Guinea	389	202	110	77	270	169	33	68
Guinea-Bissau	17	Negl.	....	17	Negl.	Negl.	....	Negl.
Kenya	67	49	....	18	7	4	....	3
Malagasy Republic	69	....	....	69	4	....	....	4
Mali	177	86	23	68	135	65	7	63
Mauritania	100	5	10	85	14	3	....	11
Mauritius	40	5	....	35	1	1	....	Negl.
Morocco	153	98	55	....	66	45	21	....
Mozambique	59	....	....	59	....	....	....	....
Niger	54	2	....	52	4	2	....	2
Nigeria	45	7	38	....	7	7	....	....
Rwanda	23	1	....	22	5	Negl.	....	5
Senegal	60	8	....	52	7	5	....	2
Sierra Leone	69	28	....	41	9	3	....	6
Somalia	289	150	6	133	131	70	4	57
Sudan	300	65	153	82	84	28	17	39
Tanzania	371	20	20	331	262	4	3	255
Togo	45	....	....	45	3	....	....	3
Tunisia	158	34	84	40	50	17	31	2
Uganda	31	16	15	21	15	6
Upper Volta	56	6	50	6	3	3
Zaire	102	102	1	1
Zambia	339	9	50	280	225	6	219

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Table 7

**Communist Economic Credits and Grants to Less Developed Countries,
Extended and Drawn,¹ 1954-75
(Continued)**

Million US \$

	Extended				Drawn			
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China
East Asia	813	157	383	273	516	145	195	176
Burma	157	16	33	108	94	16	23	55
Cambodia	134	25	17	92	91	16	6	69
Indonesia	453	114	292	47	314	111	156	47
Laos	38	2	10	26	17	2	10	5
Philippines	31	....	31	....	....	....	....	....
Europe	45	....	....	45	7	....	....	7
Malta	45	....	....	45	7	....	....	7
Latin America	1,824	659	1,022	143	335	108	209	18
Argentina	513	219	294	....	56	35	21	....
Bolivia	61	29	32	....	13	9	4	....
Brazil	399	79	320	....	139	34	105	....
Chile	439	235	139	65	64	16	33	15
Colombia	25	9	16	....	3	3	Negl.	....
Costa Rica	10	10	....	....	....	....	....	....
Ecuador	19	Negl.	19	....	7	Negl.	7	....
Guyana	46	....	10	36	1	....	Negl.	1
Peru	224	26	156	42	42	7	33	2
Uruguay	78	52	26	....	10	4	6	....
Venezuela	10	....	10	....	....	....	....	....
Near East and								
South Asia	13,505	8,798	3,505	1,202	6,573	4,865	1,113	595
Afghanistan	1,389	1,276	39	74	677	638	11	28
Bangladesh	463	300	152	11	215	173	31	11
Egypt	2,373	1,439	800	134	1,407	1,015	326	66
Greece	8	8	....	....	8	8	....	....
India	2,397	1,942	455	....	1,647	1,391	256	....
Iran	1,329	788	541	....	677	544	133	....
Iraq	1,039	554	440	45	433	328	104	1
Lebanon	9	....	9	....	....	....	....	....
Nepal	207	24	....	183	90	21	....	69
North Yemen	196	104	13	79	144	75	13	56
Pakistan	1,134	652	77	405	326	88	24	214
South Yemen	121	14	52	55	36	11	6	19
Sri Lanka	317	100	62	155	169	29	34	106
Syria	1,271	418	792	61	415	252	138	25
Turkey	1,252	1,179	73	329	292	37

1. Because of rounding, components may not add to the totals shown.

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America and the Near East. About a third of the aid went to Africa for expanding commercial ties with Algeria and Tunisia. Romania remained the largest donor despite a 50% cut in aid, accounting for 54% of the East European total. Bucharest's aid included a \$150 million credit to the steel industry in Brazil and the first Communist credit to the Philippines (\$30 million for a powerplant).

China: An African Program

29. Chinese commitments of \$270 million dropped below the unprecedentedly high levels of the early seventies, when China mounted its new aid offensive, but it demonstrated China's continuing effort to project itself as a stable source of cheap development financing for poor countries.

30. The Chinese program again emphasized Africa, where Peking has become a source of well-organized aid projects for poorer countries. Two-thirds of China's 1975 commitments went to Africa, with four new recipients receiving most of this total—Gabon, Gambia, and the two former Portuguese colonies of Mozambique and Guinea-Bissau.

31. Nepal, a long standing client, received most of Peking's non-African aid to extend a road that may eventually link China to India.

Implementation

32. Aid deliveries dropped almost a third in 1975 because (a) the huge 1974 Soviet emergency wheat shipments to India were not repeated and (b) China's major project—the Tan-Zam Railroad—was completed. Soviet deliveries were highly concentrated, with over half for major industrial plants under way in Egypt, Iran, and Turkey and for oilfield and pipeline construction in Iraq. These projects employed almost 40% of the nearly 18,000 Soviet technicians in LDCs. Egypt received the largest deliveries despite political strains from their military supply relationship. East European deliveries remained at about the level of the past two years and again were concentrated in the Near East and South Asia: about two-thirds of their deliveries went to this region with Egypt, India, and Syria receiving the largest amounts.

The Communist Technical Presence Rose

33. Communist economic technicians in the Third World rose by a fourth, bringing the total number to 55,290 (see Table 8). The East European contingent,

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Table 8

Communist Economic Technicians in Less Developed Countries¹
1975

Persons²

	Total	USSR	Eastern Europe	China
Total	55,290	17,785	13,915	23,590
Africa	37,545	5,930	10,290	21,325
Algeria.....	5,800	2,500	3,100	200
Burundi.....	355	....	5	350
Cameroon.....	10	10	....	....
Central African Republic.....	170	145	25	....
Chad.....	135	85	....	50
Congo.....	745	120	175	450
Dahomey.....	70	10	....	60
Equatorial Guinea.....	10	10	....	....
Ethiopia.....	90	70	20	....
Gabon.....	70	....	10	60
Gambia.....	10	....	....	10
Ghana.....	220	55	10	155
Guinea.....	1,210	500	250	460
Kenya.....	55	10	45	....
Libya.....	5,000	....	5,000	....
Malagasy Republic.....	80	5	....	75
Mali.....	515	210	25	280
Mauritania.....	230	5	....	225
Mauritius.....	40	5	....	35
Morocco.....	1,295	450	745	100
Mozambique.....	30	10	10	10
Niger.....	65	5	....	60
Nigeria.....	295	115	90	90
Rwanda.....	275	10	....	265
Senegal.....	135	15	....	120
Sierra Leone.....	460	10	....	450
Somalia.....	3,350	1,000	150	2,200
Sudan.....	870	35	25	810
Tanzania.....	4,315	150	65	4,100
Togo.....	90	....	....	90
Tunisia.....	480	95	320	65
Uganda.....	430	130	....	300
Upper Volta.....	95	15	....	80
Zaire.....	360	10	175	175
Zambia.....	10,185	140	45	10,000
East Asia	90	25	30	35
Burma.....	45	10	....	35
Indonesia.....	20	15	5	....
Philippines.....	25	....	25	....
Europe	70	....	....	70
Malta.....	70	....	....	70
Latin America	625	330	225	70
Bolivia.....	65	40	25	....
Brazil.....	40	25	15	....
Colombia.....	15	5	10	....
Ecuador.....	20	....	20	....
Guyana.....	90	....	40	50
Mexico.....	10	5	....	5
Peru.....	355	240	100	15
Uruguay.....	30	15	15	....

Footnotes at end of table.

Table 8
Communist Economic Technicians in Less Developed Countries¹ (Continued)
1975

	Persons ²			
	Total	USSR	Eastern Europe	China
Near East and South Asia.....	16,960	11,500	3,370	2,090
Afghanistan.....	1,030	920	25	85
Bangladesh.....	465	400	65	....
Cyprus.....	50	50	....	....
Greece.....	60	....	60	....
Egypt.....	2,505	1,800	695	10
India.....	1,665	1,500	165	....
Iran.....	3,510	2,725	785	....
Iraq.....	2,975	2,150	425	400
Jordan.....	70	....	70	....
Lebanon.....	30	....	30	....
Nepal.....	320	20	....	300
North Yemen.....	650	200	....	450
Pakistan.....	565	185	85	295 ³
South Yemen.....	675	175	100	400
Sri Lanka.....	225	75	50	100
Syria.....	1,850	1,000	800	50
Turkey.....	315	300	15	....

¹ Minimum estimates of the number of persons present for a period of one month or more. Numbers are rounded to the nearest five.

² Including laborers in some countries, especially in Tanzania, Zambia, and Somalia.

³ Excluding 25,000 to 30,000 Chinese personnel reported working on the Karakoram Highway in Pakistan.

which increased by 4,200 in 1975, saw the largest increase. Soviet and East European technicians were concentrated in Algeria, Libya, Morocco, Egypt, India, Iran, Iraq, and Syria. The largest East European group was in Libya, working under commercial contracts.

34. Moscow expanded its program in 1975 by 3,060 technicians, mostly in Iran and Iraq. Tehran now hosts the largest number of Soviet technicians.

35. China increased the number of its already huge technical force to 23,590. They surpassed either the Soviet or the East European teams, which together totaled 31,700. Some 90% of the Chinese were working in Africa on major projects such as the Tan-Zam Railroad and road construction in Somalia and Sudan.

36. The Chinese provide technical services without charge, equivalent to more than a \$100 million grant in 1975. The USSR usually allows LDCs to defer payment of project technicians' salaries, although LDCs must pay cash for administrative services.

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Table 9

AC/127-D/542

Academic Students From Less Developed Countries Trained in Communist Countries¹

	Departures to Communist Countries								Being Trained as of December 1975			
	1956-75				1975				Total	USSR	Eastern Europe	China
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China				
Total	72,345	41,580	29,660	1,105	5,060	3,335	1,660	65	27,275	17,560	9,610	105
Africa.....	35,785	21,145	13,840	800	2,765	1,850	860	55	14,895	9,555	5,270	70
Algeria.....	3,595	1,765	1,815	15	325	200	125	....	1,750	1,100	650	....
Angola.....	445	195	250	....	45	5	40	....	300	50	250	....
Botswana.....	145	85	60	....	5	5	....	....	25	25	....	....
Burundi.....	320	295	25	....	50	40	10	....	145	120	25	....
Cameroon.....	1,000	615	385	....	50	40	10	....	180	125	55	....
Central African Republic.....	710	435	95	180	75	75	....	....	305	275	30	....
Chad.....	260	245	15	....	60	55	5	....	190	175	15	....
Comoro Islands.....	35	20	....	15	....	....	....	....	5	5	....	....
Congo.....	1,210	1,040	155	15	150	150	....	....	885	800	85	....
Dahomey.....	300	185	105	10	40	30	10	....	115	105	10	....
Equatorial Guinea.....	280	150	130	....	15	15	....	....	85	85	....	....
Ethiopia.....	1,285	675	600	10	150	120	25	5	920	585	325	10
Gabon.....	10	....	....	10	10	....	....	10	10	....	....	10
Gambia.....	110	110	....	....	20	20	....	....	55	55	....	....
Ghana.....	2,170	1,150	990	30	75	25	50	....	315	115	200	....
Guinea.....	1,750	800	930	20	80	30	50	....	365	170	195	....
Guinea-Bissau.....	130	60	70	....	10	5	5	....	50	25	25	....
Ivory Coast.....	195	150	45	....	....	....	....	....	30	30	....	....
Kenya.....	1,950	1,150	790	10	25	20	5	....	300	150	150	....
Lesotho.....	160	90	65	5	10	10	....	....	65	30	35	....
Liberia.....	100	45	55	....	40	20	20	....	100	45	55	....
Libya.....	15	5	10	....	....	....	....	....	....	....	....	....
Malagasy Republic.....	425	300	120	5	65	50	10	5	425	300	120	5
Malawi.....	30	15	15	....	....	....	....	....	....	....	....	....
Mali.....	1,395	990	405	....	60	50	10	....	585	370	215	....
Mauritania.....	320	295	25	....	45	40	5	....	185	165	20	....
Mauritius.....	230	205	25	....	20	15	5	....	180	150	30	....
Morocco.....	715	300	415	....	50	20	30	....	270	150	120	....
Mozambique.....	165	100	65	....	50	25	25	....	80	40	40	....
Niger.....	355	310	45	....	35	30	5	....	140	125	15	....
Nigeria.....	2,890	1,850	1,025	15	180	100	80	....	1,140	820	320	....
Reunion.....	50	50	....	....	5	5	....	....	35	35	....	....
Rhodesia.....	355	135	220	10	5	5	130	75	55
Rwanda.....	340	325	15	70	70	245	245
Senegal.....	475	390	85	45	40	5	215	190	25

-23-

-23-

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N A T O S E C R E T

AC/127-D/542

Sierra Leone	840	690	150	40	40	415	365	50
Somalia	2,300	1,720	540	40	125	100	25	600	500	100
Sudan	3,195	1,315	1,850	30	300	175	105	20	1,575	600	955	20
Tanzania	1,540	870	520	150	125	50	60	15	655	270	360	25
Togo	355	270	85	....	30	25	5	....	150	115	35	....
Tunisia	790	140	650	....	70	20	50	....	350	100	250	....
Uganda	735	520	185	30	20	20	....	....	290	250	40	....
Upper Volta	235	205	30	....	45	40	5	....	215	200	15	....
Zaire	1,230	660	560	10	90	25	65	....	525	285	240	....
Zambia	645	225	220	200	50	40	10	....	295	135	160	....
East Asia	3,145	1,605	1,405	135	....	....	....	....	335	220	115	....
Burma	535	250	265	20	....	....	....	....	....	....	....	....
Cambodia ²	220	60	150	10	....	....	....	....	90	30	60	....
Indonesia	1,935	1,030	825	80	....	....	....	....	50	35	15	....
Laos ²	420	255	145	20	....	....	....	....	190	150	40	....
Philippines	5	5	....	....	....	....	....	....	....	....	....	....
South Vietnam ²	20	....	20	....	....	....	....	....	....	....	....	....
Thailand	10	5	....	5	....	....	....	....	5	5	....	....
Latin America	7,465	4,735	2,720	10	645	390	250	5	2,940	2,055	875	10
Argentina	390	205	185	....	25	10	15	....	150	105	45	....
Bolivia	725	405	320	....	35	20	15	....	240	180	60	....
Brazil	460	260	200	....	20	5	15	....	140	105	35	....
Chile	690	510	180	....	....	....	....	....	245	180	65	....
Colombia	605	415	190	....	85	75	10	....	460	375	85	....
Costa Rica	375	260	115	....	90	60	30	....	320	260	60	....
Dominican Republic	305	175	130	....	....	....	....	....	175	100	75	....
Ecuador	915	600	315	....	170	100	70	....	385	190	195	....
El Salvador	210	130	80	....	25	5	20	....	105	55	50	....
French West Indies	75	50	25	....	15	10	5	....	75	50	25	....
Guatemala	85	65	20	....	5	5	....	....	25	25	....	....
Guyana	220	110	110	....	15	5	10	....	25	5	20	....
Haiti	110	55	55	....	10	5	5	....	30	20	10	....
Honduras	230	170	60	....	35	25	10	....	75	65	10	....
Mexico	515	310	195	10	20	10	5	5	35	10	15	10
Nicaragua	275	195	80	....	5	....	5	....	60	35	25	....
Panama	345	240	105	....	30	25	5	....	145	130	15	....
Paraguay	20	10	10	....	....	....	....	....	....	....	....	....
Peru	540	355	185	....	50	25	25	....	190	125	65	....
Uruguay	65	35	30	....	....	....	....	....	....	....	....	....
Venezuela	310	180	130	....	10	5	5	....	60	40	20	....

-24-
21

-24-

Footnotes at end of table.

Table 9

Academic Students From Less Developed Countries Trained in Communist Countries¹ (Continued)

	Departures to Communist Countries								Being Trained as of December 1975			
	1956-75				1975				Total	USSR	Eastern Europe	China
	Total	USSR	Eastern Europe	China	Total	USSR	Eastern Europe	China				
Near East and South Asia.....	25,950	14,095	11,695	160	1,650	1,095	550	5	9,105	5,730	3,350	25
Afghanistan.....	2,335	1,495	835	5	185	130	55	....	895	665	230	....
Bangladesh.....	1,105	810	295	....	340	275	65	....	1,105	810	295	....
Cyprus.....	1,325	560	765	....	75	50	25	....	990	490	500	....
Egypt.....	2,850	1,200	1,650	....	125	25	100	....	815	310	505	....
Greece.....	110	5	100	5	20	....	20	....	90	....	90	....
India.....	1,720	1,010	705	5	130	85	45	....	545	450	95	....
Iran.....	235	60	160	15	15	5	10	....	195	20	160	15
Iraq.....	4,450	2,505	1,920	25	150	100	50	....	650	350	300	....
Israel.....	75	75	....	....	....	....	....	....	....	....	....	....
Jordan.....	2,050	1,050	1,000	....	125	100	25	....	800	700	100	....
Kuwait.....	95	60	35	....	15	10	5	....	95	60	35	....
Lebanon.....	1,260	775	485	....	70	60	10	....	465	410	55	....
Nepal.....	640	515	50	75	....	....	....	....	100	100	....	....
North Yemen.....	1,955	1,205	750	....	105	95	10	....	410	325	85	....
Pakistan.....	275	195	80	....	20	15	5	....	180	100	80	....
South Yemen.....	1,060	465	595	....	60	50	10	....	470	250	220	....
Sri Lanka.....	645	375	240	30	65	45	15	5	175	140	25	10
Syria.....	3,535	1,525	2,010	....	150	50	100	....	1,125	550	575	....
Trucial States.....	150	130	20	....	....	....	....	....	....	....	....	....
Turkey.....	80	80	....	....	....	....	....	....	....	....	....	....

¹ Numbers are rounded to the nearest five. Most of the estimates are based on scholarship awards.

² Excluding 1975 data for Cambodia, Laos, and South Vietnam because they formed Communist governments.

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-25-

-25-

Academic Training: Investment in the Future

37. Communist academic institutions accepted 5,060 new enrollees from the developing countries in 1975, and LDC students resident in Communist educational establishments rose to 27,275 (see Table 9). The USSR still hosted about two-thirds of the LDC students in Communist countries.

38. Academic training has emphasized high-impact, low-cost programs. It has provided entree to some countries that have refused other forms of cooperation with the Communist world. Spanning two decades, the program has reached more than 72,000 Third World students and has cost only \$70 million a year. Graduates of Communist universities are beginning to move into influential positions in their home countries, especially in Africa. In 1975 Soviet-educated officials attained Cabinet rank in the Central African Republic for the first time. A few Soviet-trained students moved into prominence in Dahomey's new government, including a ministry director, a labor leader, and members of the new national political bureau.

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APPENDIX A

COUNTRY SECTIONS

Africa

Algeria

Soviet-Algerian relations were revitalized late in 1975, when Moscow signed a new military agreement with Algiers. Expanded military cooperation contrasted with the absence of new Soviet economic initiatives, although Algiers was receptive to vigorous East European efforts.

Military Relations

The new arms agreement was the first between Algeria and the USSR since 1971. In 1975, Soviet arms transfers to Algeria were valued at only \$13 million, which included tanks and armored personnel carriers.

Economic Relations Striking a New Balance

While no new movement was perceptible in Algeria's longstanding economic ties with the USSR, Algeria has been expanding its relationships with Eastern Europe. In 1975 East European countries committed nearly \$90 million in new aid, and for the first time their technicians outnumbered the Soviet contingent (3,100 compared with 2,500). With almost \$170 million of aid still to be drawn, Moscow committed no new aid.

Hungary's \$70 million November credit for industrial equipment underlined Algeria's continuing success in attracting East European development financing. The new aid brings Eastern Europe's total commitment to more than \$430 million, slightly above the Soviet level and more than 4-1/2 times the Chinese.

East European nations responded quickly to Algeria's requests for aid for its first four-year plan (1970-73), and after 1970 Algeria became the second largest East European aid client. Credit use is expected to accelerate under recent contracts. Most important is a contract signed in June 1975 for Czech and East German collaboration on a \$57 million pump manufacturing plant at Medea.

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Rapidly rising trade with Eastern Europe provides Algeria with needed industrial equipment and services at moderate prices. For Eastern Europe, Algeria is an important market and a source of oil and phosphates. By 1974, trade had risen more than six times the 1970 level, to an estimated \$215 million, and it continued upward in 1975.

The Soviet Contribution

Moscow's most important contribution to Algerian development is \$300 million in credits for a 2-million-ton steel mill at Annaba, which on completion will be the largest in Africa. The plant now is operating near its initial capacity of 400,000 tons annually. Plagued by continuing construction delays, its expansion is running several years behind the 1977 scheduled completion date. Soviet personnel still are conducting extensive minerals and metals prospecting that began in 1969 and have drawn up long-term plans for petroleum development.

Algerian-Soviet trade increased about 75% between 1970 and 1974 to \$225 million. Imports have outrun exports because of the sharp rise in Soviet commodity prices while Algerian wine prices rose marginally. Machinery and equipment account for one-fourth of Algerian imports while cement, building materials, edible oils, steel, coal, and other raw materials also were important. Wine accounted for 90% of Algeria's exports to the USSR.

Congo

Despite the recent warming of relations with Moscow and a new Soviet economic development assistance agreement reportedly signed in March, activity under old agreements moved slowly. The majority of the 120 Soviet personnel in the country were teachers or doctors.

China's economic program in Congo, though small, was far more active than Moscow's. About 450 Chinese technicians performed health and education services, and worked on a dam and hydroelectric power project on the Bouenza River and on associated rural electrification and agricultural projects.

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Guinea

Guinea's radical socialist government continued to support Soviet positions on major international issues, while at the same time overtures to the West culminated in reestablishing relations with France and West Germany. Stopover facilities for the Soviet-Angolan airlift drew fire from Guinea's more moderate African neighbors.

Military Relations

Although no new military agreements were signed in 1975, Moscow delivered almost all promised equipment under old agreements. Soviet arms shipments to Guinea since 1960 total almost \$50 million.

Economic Relations

The Kindia bauxite mine - Moscow's major aid undertaking in Guinea - approached its annual capacity production rate of 2.5 to 3 million metric tons by the end of 1975. The project was initiated in 1970 with \$92 million in Soviet aid. About 90% of the output is shipped to the USSR, 55% for repayment of Guinea's debt and 35% on barter account.

Moscow refused to pay an export tax imposed on bauxite in January 1975. Guinea demanded renegotiation of the 20-year 1970 agreement, hoping Moscow will raise the price it pays for bauxite, which has been about \$10 a ton below the market price. Because of these problems Guinea probably will reject a recent Soviet offer to construct another bauxite project at Gaoul, for which preliminary studies have been completed.

These problems may also have contributed to Guinea's unilateral decision to terminate bilateral clearing arrangements with Bulgaria, Czechoslovakia, and Romania in September. Guinea also is in a better bargaining position because the new bauxite taxes, which Western producers in Guinea have been paying, have increased Conakry's foreign exchange receipts. Guinea complained that its exports were undervalued in Communist agreements and were being diverted from hard currency markets.

Romania maintained the only active East European aid program in 1975. Contracts were signed for 3,000 tractors; their reported cost of \$20 million will be covered by an \$80 million 1974 agreement. Peking also delivered two of six fishing vessels promised under a 1974 fisheries agreement, the terms of which are not known.

Libya

USSR - Focus on Military Sales

Soviet arms sales to Libya over the past five years have totaled \$800 million, half of which has been delivered. Libya views its large modern arsenal of Soviet equipment as a prestige symbol and as a possible warehouse for equipment needed by other Arab nations.

Soviet Premier Kosygin's May visit to Tripoli underscores the importance Moscow attaches to this relationship. Drawing on a 1974 agreement, Moscow delivered military equipment worth \$200 million in 1975, including MIG-23 fighters, T-62 tanks, armored personnel carriers, SA-2 missiles, and TU-22 bombers; Libya was the second LDC after Iraq to receive this bomber.

The number of Soviet and East European military personnel in Libya increased to 350 in 1975, nearly two and a half times the 1974 level as training programs on new sophisticated equipment were mounted. More than 600 Libyans went to the USSR for training. Still, much of Libya's recently acquired arms are in storage, awaiting integration into military units.

Outside the military program, the most important development was a June agreement for a Soviet 2-megawatt (MW) nuclear reactor and a nuclear research center in Tripoli.

East European Countries Still Major Contractors

East European countries are more deeply involved than Moscow in Libyan development projects, on a commercial basis. Under the auspices of recently formed joint economic commissions for planning and development, East European countries concluded large new contracts in 1975. Hungary and Romania agreed to study the feasibility of three major rail lines, to assist in oil exploration, and to aid in the construction of refineries, petrochemical, and fertilizer plants. Bulgaria and Hungary signed contracts for smaller scale petroleum projects. Poland will assist in oil pipeline construction, several new roads, and water resources development.

An estimated 5,000 East Europeans were employed in virtually all sectors of the Libyan economy, under commercial contracts. Poland was most active with 3,000 technicians working on road and bridge construction, urban development, port modernization, agriculture, and geological exploration. Romania's largest project, a housing complex, depended on the services of 1,500 Romanian technicians.

Libya pays for these goods and services in cash or oil. Barter agreements to exchange petroleum for goods and services were signed with Bulgaria, Hungary, Poland, and Romania in 1974. Libya had been Eastern Europe's major crude oil supplier in 1974. Scheduled oil contracts were not concluded in 1975, however, because of Tripoli's demand for world market prices, which East European countries refused to pay.

Morocco

Rabat, irritated by Soviet support for Algeria in the western Saharan dispute, stalled decisions in 1975 on new long-term Soviet economic programs in Morocco. Existing economic and military relationships with the USSR continued and relations with most East European countries remained cordial. Rabat also accepted its first economic aid from China in 1975.

Military Relations Expand

As Moroccan-Algerian tensions heightened over the Spanish Sahara issue, Rabat expanded its search for weapons, mostly among Western suppliers. Nevertheless, in August Moscow agreed to provide six Osa II patrol boats. The deal had been under discussion for two years. The USSR continued delivery of anti-aircraft guns, artillery pieces, and rocket launchers under earlier agreements. Moscow also sent ten military advisers, its first since 1973.

Economic Relations: Setbacks for Moscow

By October, Soviet-Moroccan relations had undergone a severe deterioration as the Moroccans felt the Soviets were supporting Algeria's position on the Sahara question. Morocco canceled October meetings at which time the Meskala phosphate deal was to be signed.

The draft on Meskala called for Soviet financing and construction of a phosphate mine, processing facilities, and a 20-mile railroad to the port of Essouira. Moscow also was to install phosphate handling equipment at the port. In return, the USSR was to receive 2-5 million tons of phosphate rock a year during 1980-90 and 10 million tons annually over the next 15-20 years. The phosphate deal could reach \$5 billion and is the largest the USSR has ever proposed to a Third World country.

The Meskala project was to be the linchpin of Soviet economic policy in Morocco. Until now Soviet economic activity had focused on implementation of \$100 million in Soviet credits provided during the past ten years. About 45% has been drawn for the construction of dams, irrigation facilities, cold storage plants, and powerplants. About 450 Soviet personnel were in Morocco in 1975 in connection with the Soviet aid program.

In spite of political frictions, commercial relations proceeded normally. Moscow agreed in December 1975 to increase to 13,000 b/d its 1976 oil exports to Morocco, in exchange for citrus fruit. One-third of Morocco's 1976 oil imports will come from the USSR, and one-third of its citrus crop will be shipped to the USSR.

China the Only New Donor

China provided the only new Communist economic aid to Morocco in 1975 under an agreement to construct a stadium in Rabat. China has been pressing for Moroccan acceptance of project aid since the early 1970s. The new agreement was followed by a Chinese delegation to discuss trade with Morocco.

Eastern Europe

During 1975, about 745 East European technical personnel, mostly Bulgarians and Romanians, were working in Morocco. Of the East European countries, only Poland and Romania have active aid agreements with Rabat. Poland made its first deliveries under an agreement to provide two sulfuric acid plants, while Romania was involved in mineral and metal prospecting, copper mine development, and water resources management. Early in the year, Bulgaria signed an agricultural agreement with Morocco, but its terms were not revealed.

Mozambique

The major Communist aid commitment to Mozambique was a \$55 million Chinese credit for development projects and \$4 million worth of wheat as a gift. In addition, Romania offered wheat on long-term credits. East Germany agreed to send technicians to train Mozambicans in agriculture, animal husbandry, industry, education, and health. In December, Bulgaria signed an agreement of unknown value for cooperation in geology and mining.

Nigeria

Nigeria's relations with the USSR cooled toward the end of the year because of Angola. Although both countries supported the MPLA, Nigeria desires an African solution and resents Soviet interference.

Soviet Military Support Resumed

Before the change in government at midyear, Moscow made its first major military deliveries to Lagos since the end of the Nigerian civil war in 1970. The delivery included MIG-21 aircraft, and 100 Nigerian air force personnel went to the USSR for training. Some aircraft still remain to be delivered under the \$50 million 1974 cash agreement.

Economic Relations

In early 1975 Nigeria decided to accept Soviet designs for a steel mill at Ajaokuta, which has been under study since 1967. On the recommendation of a French consulting firm that mediated Soviet-Nigerian differences, Lagos finally accepted Soviet proposals on plant location, capacity, infrastructure requirements, and construction schedules. Nigeria plans to pay cash for most of the 1.5-million-ton plant, the total cost of which is estimated at more than \$1 billion.

East European countries signed several new agreements with Nigeria in 1975. East Germany concluded a long-term trade agreement, possibly to barter machinery for oil, and Bulgaria signed for the exchange of light industrial equipment and chemicals for raw materials.

Communist China, under a technical assistance program begun in 1974, completed a three-month survey of small-scale industry in Nigeria. By the end of the year a 22-man team was training Nigerians in metal, wood, and leather fabrication. The terms of Chinese involvement in these enterprises have not been disclosed.

Somalia

Further steps were taken in 1975 to tie Somalia's fortunes even closer to those of the USSR. Moscow shipped in increasing amounts of sophisticated military equipment and provided Somalia its largest economic aid package to sub-Saharan Africa since the late 1960s.

Military Relations - Mutual Benefits

Somalia's strategic Red Sea location and political orientation have made it a focal point of Soviet affairs in Africa. The two countries signed a new \$35 million arms accord in May, raising the value of Soviet military aid since 1962 to \$185 million.

The number of Soviet advisers remained at about 1,000 and were spread through all levels of the military. The number is expected to grow with the recent addition of a drydock to Soviet facilities at Berbera. The USSR already has a naval missile handling and storage facility, a communications station, housing, and repair facilities at Berbera. The drydock probably will be used to repair ships and submarines of the Indian Ocean squadron.

In return for port facilities and the pervasive Soviet presence in its military establishment, Somalia has received support to build one of the largest military inventories in Black Africa.

Economic Aid

The USSR in 1975 extended \$60 million in economic assistance to Somalia, which included \$14 million in grant aid for refugee resettlement. Most of the remaining aid is for developing Somalia's fishing industry.

About 1,000 Soviet personnel worked on ongoing aid projects and refugee resettlement in 1975. Construction continued, though far behind schedule, at the USSR's largest project—the Giuba River Dam and associated hydropower and agricultural facilities—and on petroleum storage tanks at Berbera, Chisimaio, and Mogadiscio.

China has implemented its somewhat smaller program in Somalia far more rapidly than the USSR. An estimated 2,200 Chinese were working in Somalia in 1975. They completed a hospital and began construction of a sports complex in Mogadiscio and continued to work on the \$67 million Belet Uen-Burao road.

Sudan

China and Romania have the most active Communist aid programs in Sudan. In 1975, work neared completion on China's major aid undertakings—the 145-mile Wad

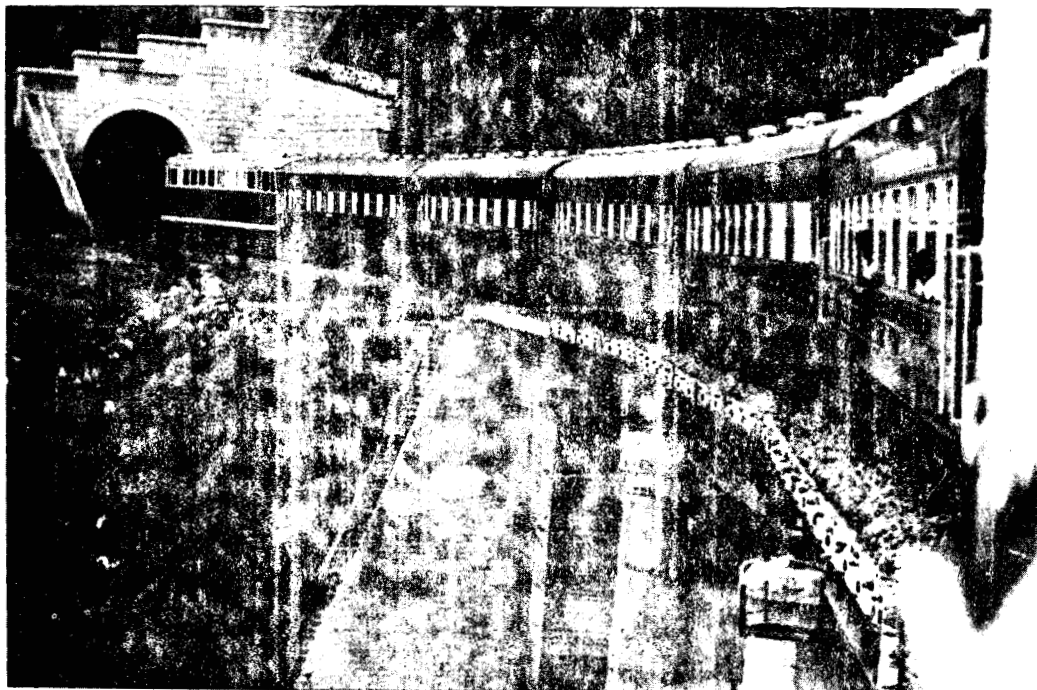
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Medani-Gedaref road and a textile plant, which together have absorbed \$35 million of China's \$82 million aid program in Sudan. Romania pushed ahead with construction of an assembly hall under a \$75 million 1971 line of credit. The USSR concluded two small agreements with Sudan in 1975 as relations slowly recovered from the events of June 1971, when Moscow was suspected of complicity in the attempted Communist takeover. A small military agreement negotiated in 1975 still awaited Sudanese ratification at the end of the year. Moscow also agreed to build a military hospital and to extend the activities of a 25-man Soviet team conducting geological surveys in the Red Sea hills. More than half of the \$65 million of Soviet economic credits extended in 1961 and 1969 have yet to be drawn.

China and Romania are Sudan's major Communist trading partners. This trade accounts for about 10% of Sudan's global trade. Khartoum signed agreements with East Germany, Poland, and Romania in 1975 calling for hard currency settlements instead of previous barter arrangements. Romania will import 130,000 bales of cotton, more than 10% of Sudan's 1975 crop, and China will take another 15%. Peking also pays in hard currency.

Tanzania

The first shipment of Zambian copper transited Tanzania in September over the Chinese-built Tan-Zam Railroad. Although the line is not scheduled for full



Tan-Zam Railway

commercial operations until late 1976, the event marked the successful completion of China's largest construction project in the Third World. China is now turning to developing an iron ore mine at Chunya and coal deposits at Tukuyu, which will be made accessible by a new rail link with the Tan-Zam Railroad. Under a \$75 million 1974 credit, Peking will pursue these activities and expand a clothing mill built originally with Chinese aid.

The USSR and Tanzania signed contracts in November to implement 1974 agreements for jet aircraft and an air defense system. The agreements are Moscow's largest with Tanzania and mark the reintroduction of Soviet military equipment into Tanzanian inventories after an eight-year hiatus. Major deliveries are expected to begin in 1976. Chinese military deliveries continued in 1975, despite Peking's replacement by Moscow as the major supplier.

Other Africa

Despite the military takeover that brought a leftist government to power late in 1974, Communist relations with *Ethiopia* did not change appreciably during 1975. An Ethiopian delegation that visited East European countries to seek development assistance received only assurances of political support. Soviet initiatives were confined largely to donations of \$600,000 for drought relief and \$100,000 worth of equipment for the Soviet-built polytechnic institute at Bahr Dar.

Gabon received its first Communist aid in 1975—\$25 million from China for agricultural machinery and light industrial equipment, including a textile factory. Repayment terms (a 10-year repayment period after 5 years' grace) are somewhat harder than for other recent Chinese agreements. Romania and Gabon agreed to set up a joint committee to study projects suitable for Romanian assistance. A petroleum refinery, a petrochemical complex, and agricultural and mineral development were under discussion at the end of the year, and a Romanian team had arrived to study development of uranium mines.

Gambia also received its first aid from a Communist country in 1975, a \$17 million credit from China. The credit, following establishment of diplomatic relations in late 1974, may finance a hospital for Banjul, roadbuilding, river transport, and a sports stadium. Repayment will be spread over 15 years, after 15 years' grace.

The Soviets made their first major effort to reestablish economic cooperation with *Ghana* since the overthrow of the Nkrumah regime in 1966. Soviet specialists resumed work on several Soviet-aided plants whose construction was suspended in 1966, including a concrete panel factory, the Tarkwa gold refinery, and the nuclear

reactor at Kwabenya. The facilities will be completed with aid outstanding under 1960 and 1961 lines of credit. Most of the equipment had been delivered to Ghana before the projects were abandoned. China, which had initiated a comeback in 1974, was actively engaged in various agricultural programs and completed a study for a cement plant. East Germany offered credits for cocoa-processing facilities.

China pledged \$17 million to *Guinea-Bissau* for agricultural equipment and rice cultivation. Peking also donated 2,000 tons of rice to the new government. The USSR provided a \$500,000 refrigerated fishing trawler as a gift in June and reportedly will deliver four additional trawlers.

China stepped up aid to *Malagasy* in 1975 with \$57 million in new credits and 65 additional technicians. The credits, which bring China's total aid to \$69 million, will go for a road, agricultural development, and light industrial plants.

The USSR promised technical assistance for a merchant marine academy, mining surveys, and a cement plant study. Moscow was noncommittal, however, on Malagasy's request for Soviet aid for road construction and a dam. The USSR apparently also refused to extend military credits for transport aircraft, helicopters, and other military equipment. Romania announced that it would help to diversify production at Malagasy's only oil refinery at Tamatave and would conduct mineral exploration. The terms of Romanian participation were not made public.

Moscow's \$5 million in new military aid to *Mali* in 1975 probably influenced Mali's decision to support Soviet aircraft en route to Angola. Moscow also continued its assistance for exploitation of gold at Kalana under \$12 million in credits previously extended. Some 210 Soviet personnel were in Mali, mostly teachers and doctors.

In an unusual move, China refused Mali's request for financing the \$120 million Manantali Dam, for which it had conducted surveys. With 280 Chinese technicians resident in Mali, Peking continued work on rice projects and an \$8 million expansion of a textile complex at Segou.

China reinforced its position as the most active foreign country in *Mauritania* outside the Arab world. Work on a health center, a sports stadium, a powerplant in Nouakchott, and preliminary studies on a deepwater port project were part of the Chinese \$85 million aid initiative that continues to employ 225 Chinese technicians. The USSR continued a small fisheries program under a 1973 agreement and was preparing to build a fisheries research center. No substantive commitments emerged from aid discussions with Bulgaria, Romania, and Poland during the year.

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Togo received a \$500,000 gift of agricultural equipment from Peking. China also sent survey teams to study a sugar plantation and refinery and political party center to be financed under a \$45 million 1972 credit. In November, Romania announced that it will provide assistance for mining, agriculture, and industry, but terms were not revealed.

Tunisia received its first aid from Hungary in November 1975 - \$10 million for agricultural development and food processing facilities. Negotiations with China continued for implementing the largely unused \$40 million credit extended in 1972. Soviet Premier Kosygin's good-will visit to Tunisia in May produced a Soviet agreement to study Tunisian requests for aid for its new five-year plan. Moscow also offered assistance to the fishing industry. Some new Soviet projects may be financed under the \$34 million in aid already extended to Tunisia, of which only half has been allocated.

Zaire's and China's mutual interest in frustrating a victory in Angola by the Popular Movement for the Liberation of Angola (MPLA) brought the two countries closer together in 1975. China began work on several agricultural projects and a conference hall, under a \$100 million 1973 credit agreement. China delivered \$7 million of defense equipment under a 1974 military agreement, Zaire's first military assistance from China. The aid included tanks and anti-aircraft guns.

Zambia's political relations with China were marred by China's withdrawal of support for the Zambian-backed National Union for Total Independence of Angola (UNITA) in Angola and Chinese advocacy of violent revolutionary change in Rhodesia. These strains, however, did not affect other relationships. In 1975 China delivered ground forces equipment under a 1971 agreement and increased the number of military personnel from 70 to 80. Plans for road construction and agricultural projects went ahead under Peking's \$50 million 1974 credit. Some Chinese personnel working on the Tan-Zam Railroad probably were transferred to the road construction effort.

Early in the year, the Zambian airforce took delivery of an additional three Soviet MI-8 helicopters ordered in 1974, the first Soviet military aircraft in Zambia's inventory. The USSR also delivered two YAK-40 aircraft under an economic credit agreement. Soviet influence in Zambia, never strong, evaporated completely by the end of the year as evidence of the Soviet role in the Angolan crisis grew.

East Asia

China, anxious to restore closer relations with *Burma*, tried to expedite use of the \$50 million economic credits reextended in 1971. During the visit of Burma's

president to Peking - his first since 1971 - China reallocated \$2 million in outstanding industrial credits for commodity assistance. Rangoon also may have received additional commodity assistance under a new aid agreement.

Indonesia, wary of China's Asian intentions, still has not normalized relations with Peking. Jakarta, nevertheless, continued its two-year-old policy of improving economic relations with the USSR and Eastern Europe. Project negotiations continued under a 1974 agreement in principle with the USSR. Moscow announced readiness to proceed with surveys for two power projects and is studying Indonesian requests for aid to textile, aluminum, and coal-mining industries. Jakarta signed trade agreements with Bulgaria, Czechoslovakia, and Romania early in the year, while East Germany and Hungary announced offers of long-term credits at market interest rates under trade agreements signed in 1974.

Malaysia's economic relations with China cooled somewhat in 1975 as the rapid growth expected for its exports to China failed to materialize. Exports instead fell by 50% and Malaysia's trade deficit probably exceeded the \$200 million annual level of recent years. Malaysia also was angered by China's refusal to join Third World tin producers in applying export quotas. Malaysia, the largest tin exporter, feared unrestricted PRC exports would depress world tin prices.

The USSR fared better in Malaysia as Soviet engineers put the finishing touches on a 17-month feasibility study for the Tembeling hydroelectric project. At the end of the year, Moscow was negotiating to obtain the contract for the project.

The *Philippines'* relations with Communist countries improved markedly in 1975. Diplomatic agreements were signed with China and Cuba, and trade contacts were expanded with East European countries. Romania became the first Communist country to extend economic development credits to Manila - \$31 million for a thermal powerplant.

Thailand established trade and diplomatic relations with China in 1975. In August, the two countries signed a \$100 million agreement to barter 200,000 tons of Thai rice for Chinese crude oil and petroleum products. Difficulties in processing Chinese crude oil will require modification of Thai refining facilities. Further, we believe that Peking's "friendship price" for crude oil under the agreement is the market price, and that Thai rice has been sold to China at a one-third discount.

Latin America

Argentina

Communist countries continued to deliver economic aid to Argentina under agreements valued at nearly \$515 million. Moscow signed new contracts in 1975 to provide \$120 million in generators for the Lujan de Cuya and San Nicolas thermal powerplants now under construction.

Moscow also agreed in 1975 to provide additional turbines for the Salto Grande power project on the Argentine-Uruguayan border and to do a feasibility study for a fourth power project on the Middle Parana River. These transactions brought the value of Soviet contracts under 1974 economic agreements to \$175 million, all for power projects.

Although several contracts were signed, activity under Eastern Europe's \$283 million in 1974 credits was slight. Romania had delivered about \$15 million worth of oil drilling equipment by the end of the year, under its \$100 million credit, and agreed to provide equipment for a \$30 million coke plant. Argentina purchased \$8 million worth of power equipment for Rio Turbio from Czechoslovakia, and Poland began development of the Rio Turbio coal deposits.

Closer relations with Communist countries and Moscow's growing raw materials requirements have fostered a tremendous expansion in Argentine exports to Communist countries and a far larger trade imbalance. Argentine exports tripled from 1972 to 1974 reaching more than \$300 million while imports trailed well behind at about \$50 million. In 1975 Soviet purchases further widened the trade gap.

Brazil

Almost all Communist aid to Brazil is incorporated in trade agreements encouraging larger equipment sales. By the end of 1975 Brazil had drawn only about a third of the \$400 million economic credits available because of its preference for Western goods.

The \$150 million trade credit extended by Romania in 1975 was the largest Communist credit ever given to Brazil. The credit will finance 85% to 90% of Brazil's steel plant purchases from Romania, including rolling mills, sinter plants, plate heating furnaces, and steel structures. Repayments are scheduled over 12 years beginning 6 months after project completion, at 8% interest. Bucharest also agreed to \$30 million in additional commercial financing for a petrochemical plant.

Communist countries have continued to run large trade deficits with Brazil that must be settled in hard currency. To help correct this imbalance, Poland signed a \$1 billion contract to exchange coal for Brazilian iron ore over a 10-year period. Soviet oil sales to Brazil are helping to reduce the USSR's deficit.

Colombia

Late in 1975, Colombia announced plans to promote new economic and commercial ties with Communist countries. Before that time Colombia had received less than \$25 million in supplier-type credits, which had hardly been tapped. The Minister of Economic Development on a trip to the USSR and East Berlin in December discussed possible cooperation with CEMA and the use of Colombia's commercial banks to administer Communist credits. He also is reported to have begun negotiations on a \$50 million East German offer of 10-year development credits. East Germany agreed to begin shipment of educational equipment, possibly under a \$5 million credit extended in 1968.

The Soviets in 1975 offered Colombia 10-year credits at 5% interest to buy Soviet equipment. Previously, Moscow had extended only \$8.5 million credit for trolley bus purchases. Bogota's request for Soviet participation in electrification, oil and gas exploration, and transportation projects was still under study at year's end.

Hungary will sell Colombia \$9 million worth of buses under a 1975 commercial agreement, and Czechoslovakia signed contracts for two powerplants. At the end of the year, Romanian technicians were studying joint ventures involving a gas pipeline, coking coal, petroleum, and agriculture.

Peru

Developing Military Relations

Peru, the USSR's only Latin American military client, expanded this relationship further in 1975 with a \$30 million order that brought total military purchases from the Soviets to \$133 million. New artillery systems were introduced into Peru's inventories during the year, additional T-55 tanks were delivered under the 1973 agreement, and 30 MI-8 helicopters came in under the new agreement. By the end of 1975, Moscow had delivered almost two-thirds of Peru's orders. Soviet military equipment upgraded Lima's ground forces and made the USSR Peru's second ranking arms supplier, after Italy.

The USSR also tried to sell arms to an all-service Peruvian delegation that visited Moscow in August. The navy, which had refused previous Soviet overtures, considered ordering guided-missile patrol boats, and the air force discussed the purchase of radar equipment, antiaircraft artillery, and MIG-21s.

Economic Aid - A Maturing Relationship

Peru is still drawing on \$260 million in economic aid extended by Communist countries in the early 1970s. The aid is heavily concentrated in hydropower development. The USSR assigned a total of 240 technical personnel to the Olmos irrigation project, where Moscow is starting land preparation, and to the Paita fishing port, which is under construction. Moscow signed contracts for studies on a \$450 million power project in northeastern Peru and for the installation of \$10 million worth of oil storage tanks for Peru's Andean pipeline project. At the end of the year Lima was considering a Soviet offer of further equipment credits, which would carry a 10-year repayment period and a 3.5% interest rate.

There were unconfirmed rumors at midyear that East Germany had agreed to provide \$200 million in industrial equipment credits. Hungary allocated \$20 million of a \$45 million 1972 credit to a hydroelectric plant at Canon del Plata and Romania agreed to provide \$10 million worth of railway equipment under a 1973 credit. Bulgaria and Peru formed a joint commission to negotiate the use of outstanding credits under a 1971 agreement. Poland continued support for Peru's fishing industry.

Late in the year, China signed an agreement to ship large quantities of rice in 1976, some possibly under outstanding credits.

Peru's exports to Communist countries reached \$190 million in 1974, almost 60% above 1973 levels, while imports remained at \$25 million. Peru's exports probably increased further in 1975, as East European countries agreed to buy copper, fishmeal, and other raw materials.

Other Latin America

Bolivia approved final designs for a second tin plant to be built at Marchamarca under the \$28 million 1970 Soviet agreement. Work at the Soviet-financed Potosi plant has been plagued by cost overruns, which may drive its foreign exchange cost up to twice the original \$7 million estimate.

The People's Republic of China agreed to renew the line of credit pledged to the Allende regime, under which some \$50 million is still available. China wants to ensure continued supplies of copper and nitrates from *Chile*, the volume of which had fallen in 1975 because Chile preferred to sell these items for hard currency. Romania, Chile's only other active Communist partner, agreed to participate in a mining project in 1975, but terms were not announced.

In March China provided *Guyana* with \$10 million in economic credits, in addition to the \$26 million it extended in 1972. The new credit was given to soothe Guyanan discontent over slow progress in constructing a textile plant and brick and glass factories. Romania signed its first economic agreement with Guyana to participate in mineral exploration, hydropower development, agriculture, and wood processing. The terms of the agreement are not known.

China - the only Communist country to provide development assistance to *Jamaica* - sent a team to Kingston in mid-July to study several textile projects discussed in March 1974 when diplomatic relations were established.

Mexico signed a general agreement with CEMA in August, establishing a joint commission to promote cooperation, particularly in oil and natural gas exploitation. The terms of the agreement were not announced. Mexico also undertook its first serious review of a Soviet long-term credit offer for hydroelectric equipment, proposing payment over 10 years at 3% interest. The two sides also signed scientific cooperation agreements on joint research in energy, geology, and oceanography. Mexico apparently turned down a \$10 million East German credit offer for communications equipment because the projects would use old technology. China, whose relations with Mexico have expanded steadily since relations were established in 1973, signed agreements to exchange technicians in petroleum and agricultural research.

In a continuing effort to expand relations with Communist countries, *Trinidad and Tobago's* prime minister led a delegation to the USSR and Romania during July. Moscow agreed to study proposals for project assistance, and the Bucharest visit yielded wide-ranging agreements for Romanian assistance for geological studies, onshore petroleum drilling and production equipment, refineries, and a petrochemical complex. Trinidad in turn will train Romanian personnel in offshore petroleum production. Peking, which also hopes to learn Western offshore petroleum development techniques from Trinidad, held intermittent discussions throughout the year and exchanged petroleum delegations.

Near East and South Asia

Afghanistan

Moscow reaffirmed its deep aid commitment to Afghanistan in 1975 by providing the largest amount of economic and military assistance it has yet extended in a single year to this border state. Despite OPEC member pledges of \$800 million in aid in 1974-75, Moscow remains Kabul's most important single source of aid.

Economic Relations

New Soviet economic credits to Afghanistan totaled \$437 million in 1975. The aid was allocated to 20 major projects in agriculture, irrigation, electric power, mineral and metal processing, and transportation. The credits will assure Moscow a major role in the Afghani Fifth Five-Year Plan, which will begin in March 1977. The new credits offer unusually liberal terms, typical of Soviet aid extended to Afghanistan before 1966 (22 years repayment, after eight years' grace, at 2% interest). The recent agreement covers feasibility studies and project designs and includes commodities for financing local costs, considerations which the Soviets have provided to only a few select clients.

The level of Soviet project activity changed little during the year, despite a near 25% rise in the number of Soviet technicians in Afghanistan. The 920 technicians present continued work on exploration and exploitation of petroleum and natural gas fields and on large-scale irrigation projects. The Soviets also initiated surveys under the 1975 agreement for a pipeline in northern Afghanistan and for power projects related to new dams that are under consideration. In November, agreement was reached to provide \$6.5 million worth of equipment for development of gas wells in the Jarquduq area. The USSR also provided about \$5.5 million in commodity assistance in 1975.

Soviet aid has provided about half of the foreign exchange component for Afghani development under its four five-year plans. About half of Moscow's \$1.3 billion in aid to Kabul has been disbursed. Soviet aid is responsible for construction of about two-thirds of the roads completed since 1956, half of the electric power capacity, and the addition of at least 40,000 hectares of cultivated land. The USSR developed Afghanistan's natural gas production facilities and constructed pipelines to transport gas to the USSR. In 1975, natural gas accounted for a third of Kabul's total exports to the USSR, covering the debt service due the USSR under revised payment schedules.

The reported 1974 agreement to reschedule \$140 million of Kabul's debt to the USSR was confirmed in 1975. The agreement deferred until 1987 60% of Afghani repayments due in 1975-80. Repayment then will be interest free, with installments stretched over 10 years.

No other aid agreements were signed with Communist countries in 1975, although Bulgaria offered a \$50 million credit for a fruit-processing plant, a tannery, and a slaughterhouse. The offer may be an enlargement of its 1973 credit that was designated for similar projects. Czechoslovakia signed a \$6.5 million contract to provide equipment for a trolley-bus line in Kabul under a \$20 million 1973 credit. Prague also conducted feasibility studies for a number of projects in Herat.

Peking's \$12 million irrigation project in the Parwan Valley is the largest Chinese project under way. The gift hospital being built in Kandahar is more than half completed, and work proceeds on the expansion of the Chinese-built textile mill at Bagram. About 85 Chinese technicians were working in Afghanistan during the year.

Moscow continues as Afghanistan's most important trading partner, accounting for about one-third of its total trade. Although data for 1975 are not available, the value of trade probably increased over 1974 because of higher prices for Afghanistan's natural gas and raw cotton. As in 1974, the balance was likely in Afghanistan's favor.

Military Aid

Two Soviet military agreements totaling \$125 million for air and ground forces equipment were signed in 1975. Shipments were to include tanks, APCs, surface-to-air missiles, transport aircraft, and support equipment. Czechoslovakia also agreed in 1975 to provide 12 L-39 jet trainers, valued at \$8 million. Despite \$62 million still outstanding under old agreements with the USSR, 1975 deliveries were about 60% below the record average annual deliveries for 1973 and 1974.

Since Kabul's border conflict with Pakistan in 1956, Soviet military aid to Afghanistan has grown to \$615 million. Moscow is entirely responsible for the modern armament in Afghani inventories and is virtually the only source of equipment and technical services for support and maintenance of Afghani weapons systems.

Egypt

The further deterioration of Soviet-Egyptian relations in 1975 was reflected in Moscow's cessation of arms deliveries and refusal to ease debt repayment terms.

N A T O S E C R E TAC/127-D/542

-46-

East European countries apparently were not affected by the chill in Egypt's Soviet relations, and they concluded a number of new economic and military accords.

The Debt Issue

Debt talks reached a stalemate over conditions for rescheduling Egypt's \$5 billion military and economic debt. Moscow refused Sadat's request for a 10-year moratorium with payments then to be spread over a 30-40 year period. Although debt talks were put off until August 1976, an interim arrangement is in effect through the annual trade protocol that provides for \$180 million of repayments through an Egyptian export surplus in 1976.

Military Aid

Since the 1973 war no new Soviet-Egyptian military agreements have been concluded. Soviet deliveries in 1975 under old accords amounted to \$150 million, almost double the 1974 level. Three squadrons of fighters (including 26 MIG-23s) and other equipment were delivered before shipments were largely cut off at midyear.

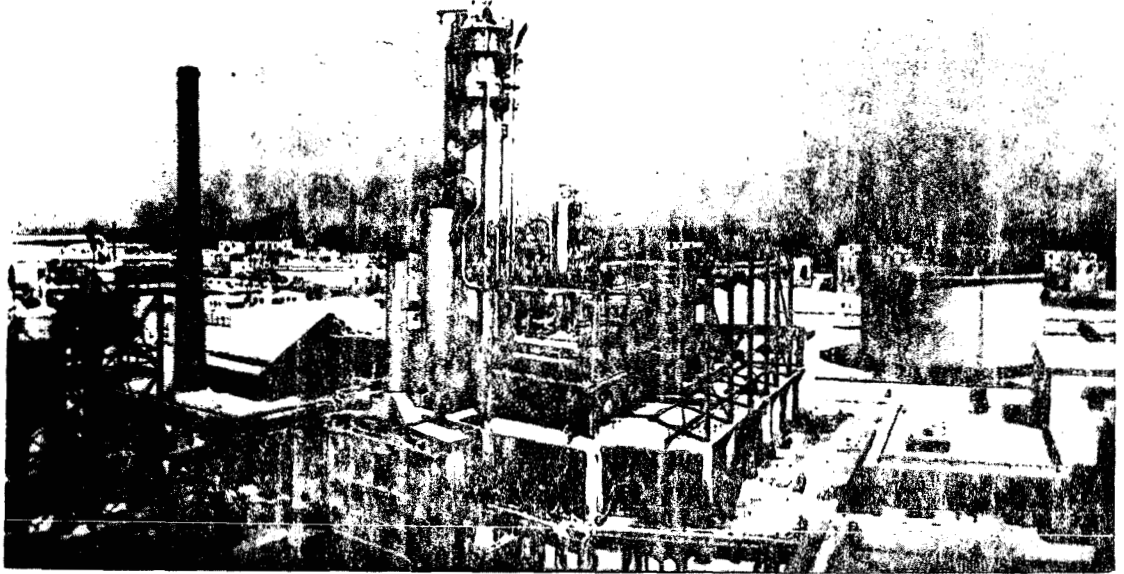
Although Arab financing has reduced Egypt's dependence on Communist arms suppliers, Moscow's arms embargo has clearly affected Egypt's military readiness. It will be several years before Cairo receives the jet fighters, helicopters, and air-to-air missiles it ordered from the United Kingdom and France. Negotiations for other sophisticated weapons are under way.

Economic Aid - Business as Usual

Strains in Soviet-Egyptian political and military relations have not directly affected ongoing Soviet development assistance to Egypt but may have influenced future prospects. Although cautious in supporting new aid efforts, Moscow wants to maintain a role in Egypt. Accordingly, in 1975 the USSR continued all projects under way and agreed to go ahead with two new projects, a cement plant at Asyut and an addition to capacity at the Naja Hamadi aluminum plant, both to be financed under existing credits. Early in the year the USSR also offered to underwrite development of the Abu Tartur phosphate deposits and related facilities, for which at least \$600 million in new Soviet credits would be required. Because the Sadat government is seeking to further reduce Soviet involvement in the Egyptian economy, it brushed this offer aside in favor of negotiations with Western firms that have access to Arab financing. Until the 1973 war Moscow was Cairo's major aid source. Since 1973 Arab aid has accounted for more than two-thirds of all external financing available to Egypt, dwarfing the Soviet assistance program.

N A T O S E C R E T

-46-



Oil Refinery, Alexandria, Egypt

In 1975 the largest Soviet project still under way was the expansion of the steel mill at Hulwan, Egypt's only integrated steel plant. Scheduled for completion in 1976, annual capacity will climb from 900,000 to 1.5 million tons, about three times the current domestic requirement for steel in Egypt. Production began in 1975 at the 100,000 ton Naja Hamadi aluminum plant, built with \$53 million in Soviet credits. Although operating well below rated capacity, a \$61 million expansion is designed to add at least 60,000 tons to its annual capacity. Other ongoing projects include Soviet assistance to Egypt's fishing industry and irrigation and rural electrification programs. Undertaken in the late 1960s and early 1970s these projects have proceeded slowly and have been overshadowed in recent years by Western sponsored efforts in the same area.

During 1975, about 1,800 Soviet economic technicians were in Egypt, roughly the same number as in 1973 and 1974. In addition to those involved with ongoing projects Soviet technicians also were working at the Soviet-built Alexandria shipyard, which serviced and repaired Soviet vessels and builds new ones.

The only new Communist economic aid to Egypt was a \$25 million Hungarian credit for machinery and equipment. Other East European countries continued work on projects, under old credits. A new protocol with Romania called for further implementation of sulfuric acid plants, the Hamrawein phosphate complex, and

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a petrochemical plant under \$100 million credits still outstanding. Romania and Egypt announced their intention to establish a bank in Egypt to facilitate exchanges. The bank, in which Romania holds 49% ownership, is Bucharest's first such venture in the Third World.

In contrast with Egyptian-Soviet long-term debt problems, Cairo quickly settled its outstanding commercial debt questions with Hungary and Poland. Although Hungary and Poland insisted on future settlements in convertible currency, both agreed to accept Egyptian goods to settle past trade imbalances.

India

Military

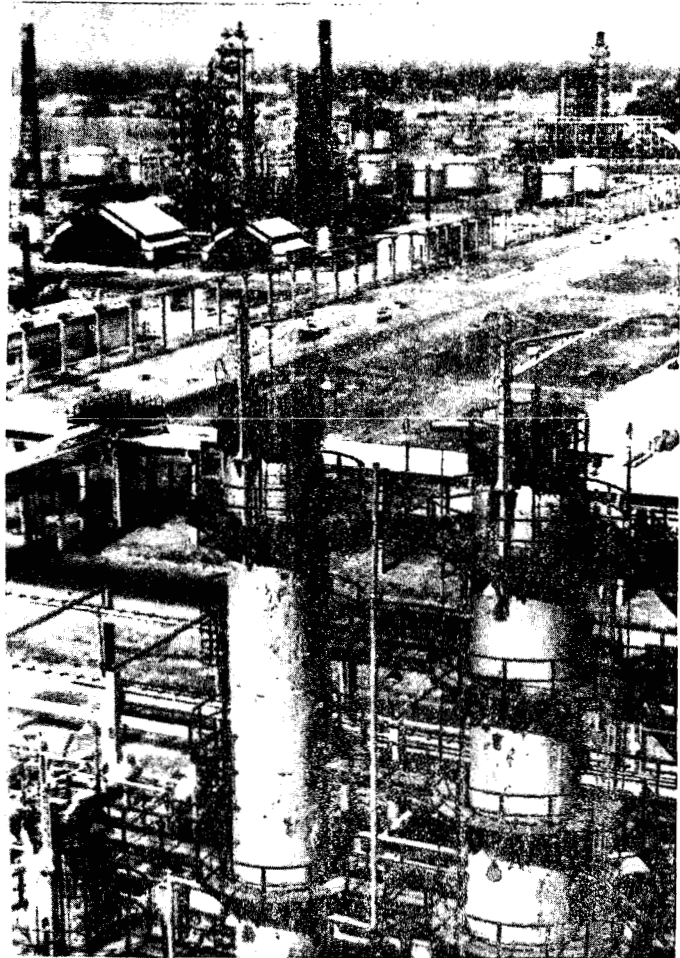
Despite a desire to reduce its dependence on Soviet arms, New Delhi ordered about \$200 million worth of Soviet hardware in 1975. On the new equipment list were minesweepers, antisubmarine warfare aircraft, armor, artillery, surface-to-air missiles, and spare parts. The agreement also may have included modern guided-missile boats and destroyers. If the latter equipment was actually included, the value of 1975 agreements would be \$500 million. India apparently did not accept Moscow's offer of MIG-23s.

Soviet military deliveries of \$129 million in 1975 came close to the high levels of recent years. India received a Petya-class destroyer escort and an F-class submarine under a 1971 accord, Mi-8 helicopters, MIG-21 components for local production, and ordnance and support equipment.

Warsaw agreed to provide \$16 million of arms, and began deliveries of TS-11 jet trainers. It also delivered two of four Polnocny-class medium landing ships contracted for in 1973.

Economic

The static pattern of Communist aid to India, which has characterized the relationship since 1966, continued throughout 1975. No new assistance was provided, work was initiated only on a couple of Czech projects, and drawings on project aid remain at the low level reached several years ago. Although the remainder of the 1973 wheat loan (\$45 million) was delivered in 1975, only about \$20 million worth of equipment came in under Soviet aid agreements. Because debt service payments topped these deliveries by \$40 million in 1975, India experienced a negative flow with the USSR of about \$40 million in 1975.



Oil Refinery, Barauni, India

Work continued on the Bokharo steel plant, the largest Soviet project under construction in India, and on the expansion of Bhilai, scheduled eventually to reach a 4-million-ton capacity from the present 2.5 million tons. A 2,000-ton rolling mill at Bhilai is also under construction.

Moscow agreed to undertake studies for four new coal mines, under a 1966 trade credit, and signed a \$20 million contract for equipment installation at the Mathura refinery, for which designs have been completed.

East European projects also moved slowly. Czechoslovakia initiated work on a foundry forge and a fertilizer plant under its \$105 million 1973 credits. It also

AC/127-D/542

provided components for plants built under earlier Czech credits. Poland continued its decade-long effort in coal mine development work.

Soviet-Indian trade continued its upward trend. Helped by higher prices and volume, Indian exports rose sharply, while the imports rose even faster because of increased receipts of fertilizer and petroleum.

Iran

Iran's economic relations with Communist countries have become more reciprocal. Iran has agreed to provide almost \$800 million in cash to East European countries and in February the USSR agreed in principle to accept its first credits from the Third World.

The Soviet Economic Program: Increasing Trade Orientation

The February Soviet-Iranian accord calls for Iran and the USSR to undertake projects in both countries whose eventual cost could reach \$3 billion. Moscow will continue work under its current program and will expand the Soviet-built machine tool plant at Arak and build new powerplants and grain silos. Iran offered credits to the USSR to finance a paper plant. Repayment will be made from the plant's output.

Soviet aid to Iran continued to focus on the Isfahan steel mill. The plant's current annual capacity of 750,000 tons is planned to reach 1.9 million tons by 1978. About \$500 million in Soviet credits has been provided for the plant thus far. Plans to expand Isfahan to 8 million tons over the next decade probably will be executed under commercial contracts.

To accommodate growing Soviet-Iranian trade and increasing transshipments of East European goods through the USSR, Iran is improving its rail links with Soviet assistance. Under a series of 1975 protocols Moscow will electrify a 90-mile line from Tabriz in Iran to Julfa on the Soviet border and has begun studies on a 100-mile railroad from Mashad in Iran to Tadjhen in the USSR.

In a mutually profitable arrangement, the two sides entered a trilateral agreement for the sale of Iranian natural gas to Western Europe. Delivery will be made through a second pipeline (financed by Iran) to Iran's border with the USSR.

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For 20 years beginning in 1981, Iran will deliver 36.8 million cubic meters of gas per day to the Soviet border, to be consumed in the USSR. In turn, the USSR will deliver 31.1 million cubic meters of gas per day to Western Europe, the difference representing a transit fee paid to the USSR. West European consumers will pay Iran for the gas in hard currency.

Iran: A New Creditor for Eastern Europe

Consistent with the Shah's interest in acquiring needed raw materials and improving political relations with Communist countries, Iran extended credits to several East European countries. Romania received \$420 million under a December 1974 agreement, Iran's first development aid to a Communist country. The credit will be repaid in agricultural and other products. Bulgaria received \$160 million under a March accord for developing agricultural and livestock industries to produce goods for export to Iran. Both credits carry commercial-like terms. To handle their growing trade, Bulgaria and Iran set up a joint transport company, capitalized at \$20 million. Tehran will hold 60% equity. Iran also apparently agreed in October to provide a \$200 million advance payment to Warsaw to obtain Polish dairy products, sugar, cement, and ships.

Traditional forms of cooperation also increased during the year. All East European countries signed accords with Iran calling for large increases in trade and faster implementation of aid programs. Romania and Iran signed protocols under the \$1.5 billion of reciprocal accords concluded in December 1974. New projects include engineering work on the Saveh dam, construction of powerplants and food processing plants, expansion of a chemical plant at Shiraz, and studies for petrochemical and other plants. Financing was not announced but probably includes some combination of the \$65 million of outstanding Romanian credits to Iran and Tehran's advance payment to Bucharest.

Iraq

Despite its vastly increased ability to buy Western goods and services, Baghdad continued to depend on the USSR and East European countries for most of its development assistance and military supplies. At the end of the year Iraq signed economic protocols with the USSR for new project studies. If implemented, these projects will require financing beyond the \$225 million in credits still outstanding under old agreements. Iraq ranked first among LDCs as a recipient of Communist military deliveries in 1975. In July, after three years of negotiations, Iraq became

AC/127-D/542

the first Third World country to sign a cooperation agreement with the Council for Mutual Economic Assistance (CEMA).

Military Relations: Deliveries Remain High

New Communist military commitments dropped from \$750 million in 1974 to less than \$100 million in 1975, although deliveries were down only slightly from the 1974 level. The USSR provided about \$27 million in the new aid for MI-8 helicopters and spare parts. Iraq reduced its new arms orders, in part because of the successful conclusion of the Kurdish conflict early in 1975, and to give it time to assimilate the large amounts of sophisticated equipment ordered from the USSR. Moscow delivered \$250 million worth of arms in 1975, mostly under a \$300 million 1974 agreement which included the SCUD surface-to-surface missile.

About 1,000 Soviet military advisers and technicians were stationed in Iraq in 1975, roughly the same number as in 1974. Some 250 Iraqi military personnel went to the USSR to receive aircraft and surface-to-air missile training, and several hundred returned home after completing training on surface-to-air missile systems and the SCUD surface-to-surface system.

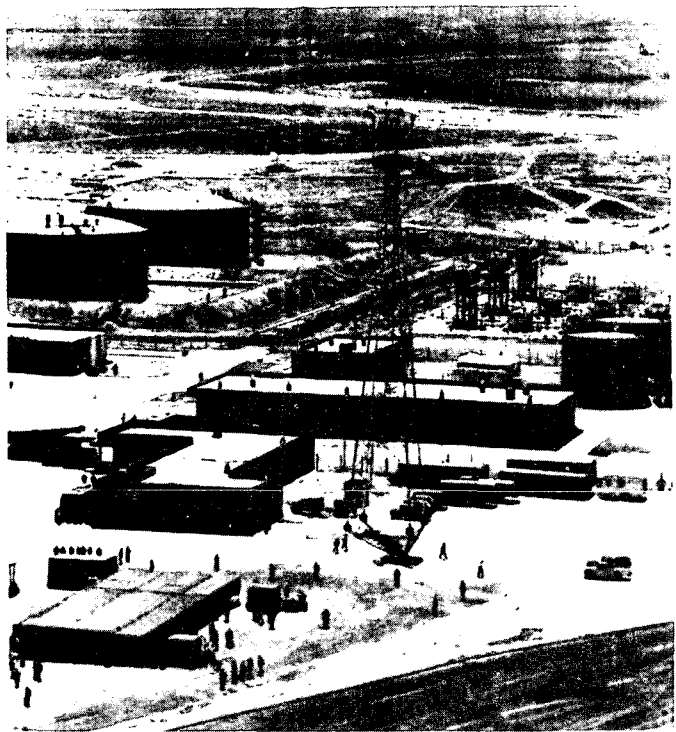
Iraq also signed agreements in 1975 with East European countries for \$66 million worth of military equipment. Two Hungarian accords for FUG armored vehicles, antiaircraft equipment, tanks, and field guns accounted for most of it. East Germany concluded a deal for vehicle-related goods. Record East European deliveries of some \$75 million included the introduction of Czech L-39 jet trainers late in the year, Czech OT-64 armored personnel carriers, and Hungarian FUG armored vehicles. The PRC sent \$6 million worth of quartermaster supplies under an agreement signed in mid-1975, its second such contract with Iraq.

Economic Activity Expands

Although petroleum development remains the USSR's largest and most important program in Iraq, Moscow signed contracts in 1975 to expand its support to other major sectors. Soviet technical personnel in Iraq more than doubled, with about 2,200 technicians assigned to petroleum exploration and development, and power, port, fishing, and agricultural projects.

The Petroleum Development Program

Soviet technicians during 1975 completed the third-stage development at the North Rumaila oilfield, the beginning of oil production at Nahr Umar, and initiation of work on a 375-mile Baghdad-Basra petroleum pipeline scheduled for completion by 1976. North Rumaila's capacity was raised to more than 800,000 b/d, but Soviet technicians still are grappling with pressurization problems that have limited output to only 150,000 b/d. Production at



Oil Refinery, Rumaila, Iraq

Nahr Umar is at an initial 10,000 b/d. Both projects were financed under a \$67 million 1969 Soviet credit.

The USSR and Iraq also signed a contract in 1975 for exploitation of the Luhais oilfield in southern Iraq, expected to produce 50,000 b/d. Although financing for the estimated \$50 million program was not announced, Moscow probably sought repayment in oil, which it has received for other assistance to the oil sector. Since late 1973, however, Baghdad has been demanding world market prices and hard currency payments for oil shipped to Communist countries, and Soviet oil purchases have dropped to roughly half the 1973 level.

Communist oil activity may increase under Iraq's new cooperation agreement with CEMA, which provides for development of Iraq's petroleum, natural gas, and petrochemical industries.

Large New Contracts in Other Sectors

Under Moscow's \$220 million 1971 line of credit, assistance is being provided for two thermal powerplants (one at Nasiriyah, the other at Mosul) which when completed will double Iraq's electric power capacity. Moscow contracted to install

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AC/127-D/542

four 120,000-kw turbines for the plant, continued to build the powerplant at Nasiriyah in 1975, and conducted surveys for the Mosul plant. In addition, under a Soviet contract whose terms are not known, work accelerated on the ath-Tharthar irrigation and flood control project.

The USSR agreed to modernize a nuclear research center in Iraq, possibly one provided Baghdad in 1968 as a gift. Contracts totaling \$50 million also were signed for two vocational training centers for Iraqi chemical, petrochemical, mechanical, and mineral industries. The centers, to be completed in 1978, will accommodate 12,000 students each.

Protocols were signed with virtually all East European countries and China to speed work under outstanding credits. Baghdad signed a \$17 million agreement with an East German firm to install signal equipment on the Baghdad-Umm Qasr railroad, probably with funds from a 1969 \$84 million credit. Poland contracted to supply \$3 million worth of equipment for two pumping stations for irrigation and agreed to provide \$15 million worth of power transformers. China began construction of a bridge over the Mosul River, its first aid project in Iraq under a \$45 million 1971 credit.

North Yemen

Moscow's 20-year, \$100 million development assistance commitment is dwarfed by the nearly \$1 billion in aid pledged by OPEC in 1974-75. Expansion of the Bajil cement plant to an annual capacity of 100,000 tons is the only important ongoing Soviet project.

Pakistan

Military Relations

Deliveries of Chinese military equipment to Pakistan in 1975 amounted to \$36 million, double the 1974 level. They included MIG-19 jet fighters, other airforce equipment, and possibly 50 T-59 tanks that we believe arrived early in the year. The program also included the overhaul of aircraft engines previously supplied by China.

Since the 1965 war with India, Pakistani imports of Chinese military goods have totaled about \$360 million and account for about half of Pakistan's air and ground force inventories. Soviet commitments amount to only about \$70 million, almost all provided in 1968. Objections from New Delhi forced Moscow to cut back shipments in 1969, after delivering only about a third of the equipment promised. Shipments of lethal items were never resumed, although spare parts deliveries are continuing.

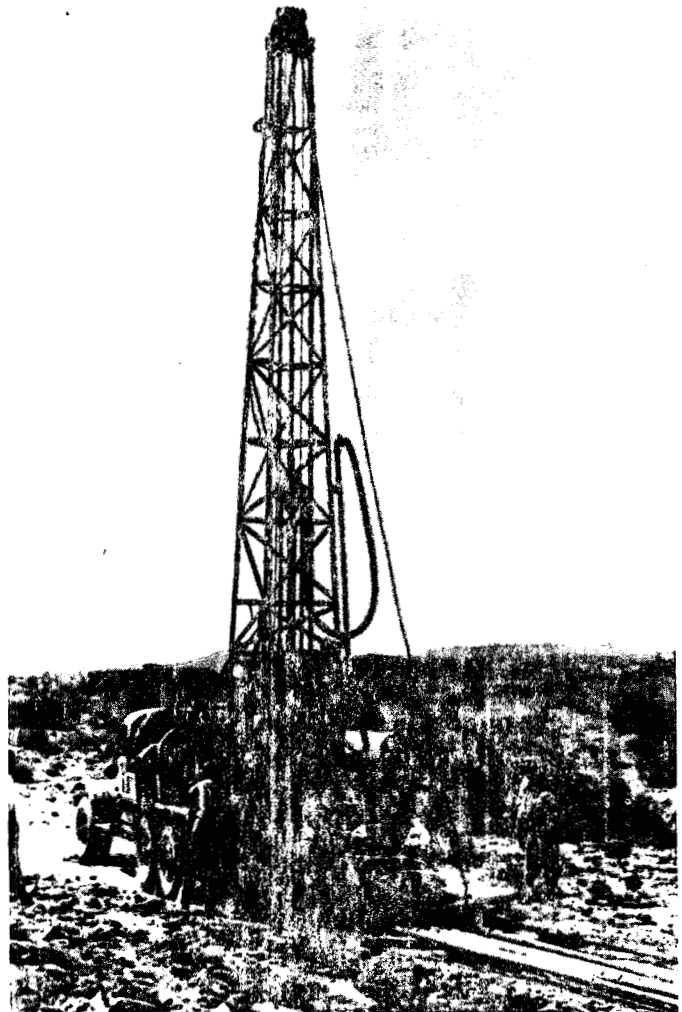
Economic Relations -- Jockeying for Position

Peking's commitment to Pakistan's economic development has equaled its military undertakings. Some 25,000-30,000 Chinese laborers and technicians are working on the Karakoram Highway. This 450-mile road, being provided without cost to Pakistan, is Peking's largest project in Pakistan. The road runs from the Chinese border, south through Pakistan and the Hunza Valley, along the Indus River, to Thakot. The first section of the road was completed in the early 1970s. Additional work, undertaken late in 1973, is scheduled for completion in 1977. Estimates of the road's cost now range up to \$200 million, double the original estimate.

Another 295 Chinese were working on other projects in Pakistan, including the expansion of the ordnance factory at Wah, a cotton-spinning mill at Tarbela, a textile mill at Kotri, and the expansion of the heavy machinery plant at Taxila. China also plans to construct a small iron and steel plant at Chilgazi to complement the heavy machinery plant and the foundry forge at Taxila.

Late in 1975 Moscow began construction of Pakistan's largest industrial undertaking, a 1.1-million-ton steel mill at Karachi; Moscow has extended \$435 million of credits for the project. The steel complex, on the books since 1970, is scheduled for completion in 1980-81. The USSR also agreed in 1975 to increase petroleum exploration activity at several locations under credits extended in 1969 and possibly 1973. Moscow continued work on a thermal powerplant at Guddu and transmission lines and sent a team to discuss mineral development assistance in November.

Romania is the only other large Communist aid



Pakistan: Soviet Geologists Prospecting for Oil and Gas

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donor. Activity increased on the expansion of the state-owned petroleum refinery at Karachi and port construction at Qasim.

Sri Lanka

A \$57 million Soviet economic credit to Sri Lanka, Moscow's first major aid commitment to Colombo since 1958, highlighted Communist relations with Sri Lanka in 1975. The February agreement, which more than doubles Moscow's previous aid to Sri Lanka, will be used to construct the Samanawala 120-MW hydropowerplant and to build an irrigation network. The credit will be repaid in 15 annual installments, after a two-year grace, with interest at 2.5%. An estimated 75 Soviet technicians were engaged in geological surveys, a survey for the second stage of the steel works at Homogana-Oruwala, and petroleum exploration on Mannar Island.

China completed the Pugoda textile mill, under construction with Chinese grant aid since 1970. Meanwhile, survey work began on flood control and irrigation projects, a sheet glass plant, and fisheries development under a \$44 million 1972 line of credit. Late in the year, China and Sri Lanka also signed their annual rice-rubber barter agreement for 1976. Discussions were held on repaying China's loan of 30,000 tons of rice in 1974 and on Sri Lanka's estimated \$12 million deficit in its 1975 barter account, caused by its inability to ship enough rubber and other commodities to cover the 250,000 tons of rice imported.

Colombo has received \$26 million worth of military equipment from Communist countries since 1971, divided equally between China and the USSR. In 1975, Moscow provided its first aid to Sri Lanka's navy with delivery of a patrol boat as a grant. China previously had provided five patrol boats.

Syria

Military

After 1972 Syria became Moscow's most important Arab arms client. The USSR committed an additional \$300 million in military aid to Syria in 1975.

Soviet arms shipments in 1975 dropped from the exceptionally high post-October 1973 war delivery level. The \$190 million worth of arms delivered included sophisticated weapons, such as SU-7/20 jet fighters, T-62 tanks, BRDM-2 armored scout cars, and AN-26 medium transports, the first of that aircraft sent to Syria. A Petya-class destroyer escort, the largest combatant in Syria's entire inventory, also was delivered in 1975. There were unconfirmed reports that some T-72 medium tanks were shipped, possibly as follow-ons to the T-62 tanks currently held by Syria.

Despite reduced deliveries, Moscow increased its military personnel in Syria from 2,200 in 1974 to about 3,000 last year. The newly arrived Soviet advisers and technicians provided training on MIG-23 jet fighters and on the SCUD surface-to-surface missile system. They also worked with Syrian ground force units.

Czechoslovakia was the only East European country to provide new arms aid to Syria in 1975 - a \$40 million credit for L-39 advanced jet trainers and ground forces equipment and \$20 million for construction-related vehicles. East European countries delivered about \$30 million worth of equipment, which included T-55 tanks from Czechoslovakia and FUG armored scout cars from Hungary.

Economic

No new aid agreements were signed between Moscow and Damascus in 1975. About \$20 million worth of equipment was delivered in 1975 under previous agreements bringing total aid drawings up to \$250 million. About 1,000 Soviet technicians were working on the 420-mile Latakia-Qamishli railroad, under way since the early 1960s, and the Euphrates Dam complex, begun in 1967.

The USSR and Syria signed a protocol under an old credit agreement for large-scale oil prospecting under Moscow's comprehensive 1976-80 oil development program for Syria.

Syria is Eastern Europe's largest Third World credit recipient with commitments of \$790 million. Romania, the largest East European donor, agreed to allocate part of its outstanding \$365 million in credits to heavy industry and for oil development—areas where Bucharest already is active. Romania also agreed to go ahead with a superphosphate plant at Homs and to supply ore-handling equipment for the port of Tartus. Construction was begun on the 120,000 b/d refinery at Baniyas, which will be Syria's largest refinery when completed in the late 1970s. East Germany signed a \$109 million contract to expand eight cement plants—probably a commercial deal.

Turkey

In July the USSR and Turkey signed a "framework" agreement that may eventually provide \$650 million in new Soviet credits for Turkey's industry. Separate agreements will be signed to allocate the proceeds and to specify terms for individual projects. Expansion of the Iskenderun steel complex to 4 million tons, additional facilities at the Seydesehir aluminum complex, and two 400-MW thermal powerplants will be financed under the new agreement.

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Turkey, with half a billion dollars of earlier Soviet pledges, has become a major Soviet aid recipient. In December, Soviet Premier Kosygin participated in the opening of the 1-million-ton Iskenderun steel plant, one of Moscow's largest aid projects in the Third World. Other Soviet projects include a refinery at Aliaga, a sulfuric acid plant, a plywood factory, and an aluminum plant.

The two countries also signed a 1975 trade protocol calling for exchanges of \$180 million, a slight increase over 1974 levels, and \$30 million of additional Turkish goods were to be shipped to service aid debts.

Other

A \$45 million Soviet credit and \$10 million from Hungary, extended before the August coup, highlighted Communist economic aid to *Bangladesh* in 1975. Moscow also allowed Dacca to defer the first of five annual installments on its 1973 \$35 million loan of 200,000 tons of wheat, although repayments continued on other credits. Negotiations with Moscow were begun in July for more military aircraft, but were not resumed after the coup. The Soviets did provide new economic credits (repayable at 2% interest over 15 years, after a three-year grace period) for a cotton-spinning mill, a gas liquefaction unit, and an experimental cotton farm. The new agreement also provided \$7.5 million for commodities to help finance local project costs.

Hungary signed an agreement in June to furnish railway passenger cars; payments would be made over a 12-year period in jute products and other agricultural goods.

President Ceausescu's April visit to *Jordan* produced new economic accords under which Bucharest will explore for oil and build an oil refinery on a joint venture basis. Romania also agreed to expand the Az-Zarqa oil refinery and to participate in agricultural projects. Financial details are not known. Jordan's only Communist credit is an unused \$6 million 1969 Soviet pledge to finance oil and gas prospecting and vocational schools.

Despite reported Chinese dissatisfaction with *Nepal's* policy of accommodation toward India, China gave Nepal \$80 million in grant aid for a major addition to its road construction program in Nepal. Peking will build a 250-mile road from Pokharo to Surkhet, extending the Chinese-built road system from the Tibet border, via Katmandu, to Pokharo. This system could eventually link with other roads to the Indian border.

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Chinese aid to Nepal now stands at more than \$180 million, mostly for roads and light industrial plants. There were 300 Chinese working on projects in Nepal, unchanged from 1974. The number is expected to rise rapidly as work on the road extension gets under way.

Soviet activities in Nepal again were limited. Soviet technicians arrived in December to study the feasibility of a long-discussed resin and turpentine plant.

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APPENDIX B

REVIEW OF PRICES OF MILITARY EQUIPMENT

A study was initiated in late 1975 to reexamine the pricing of Soviet military equipment sales and deliveries to LDCs. The effort was undertaken because our present prices are based largely on pre-1970 sources, which may now be out of date, and on costs of comparable US equipment in the case of items first introduced in recent years. This reexamination is to be completed in 1976.

We have meanwhile examined Soviet export data to look for an independent check on our aggregative estimates of military deliveries. Although Soviet trade statistics do not explicitly identify military deliveries to LDCs, there is a possibility of calculating the overall value of such deliveries from the official Soviet export data. Such a calculation seems feasible because published Soviet statistics on total exports to all LDCs continuously exceed the sum of published figures on exports to the individual LDCs, and the difference is believed to consist mainly of military goods.

The table and graphic included in this appendix compares this export residual through 1957-74 with (1) our estimates of total military deliveries to LDCs, including grant* aid, and (2) our estimates of military deliveries, excluding grant aid. The Soviets indicate that their trade data exclude grants. In most years before 1967, Soviet export residuals are below the military delivery estimates (excluding grant aid), while since 1967 they are above these estimates, with divergence growing rapidly - from 17% in 1967 to 70% in 1969, and 150% in 1974.

Possible explanations for these large differences include (1) a sharp increase in Soviet arms prices, (2) understatement of the volume of equipment delivered, and (3) a far smaller share of military goods delivered as grant aid and a larger percentage provided under credit or for cash. We give heaviest weight to the last possibility.

Because of the lack of new contract information we do not have up-to-date information on repayment terms and have continued to use terms that often include discounts of a third to a half off the list price. If we have overestimated grant aid, our estimates would fall below the export residuals.

* Outright grants and discounts from list prices.

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USSR Export Residuals Compared with Estimated
Soviet Military Deliveries, 1957-74

Million US \$

	Soviet Export Residuals	Estimated Military Deliveries (Including Cash, Credits, and Grants)	Estimated Military Deliveries (Excluding Grants)
1957	82.3	135	45
1958	76.0	195	90
1959	90.1	95	35
1960	2.1	215	75
1961	77.1	335	125
1962	385.5	810	395
1963	144.0	595	270
1964	170.9	355	185
1965	269.2	330	185
1966	292.9	500	330
1967	340.1	490	290
1968	409.9	505	335
1969	519.7	455	305
1970	793.8	995	580
1971	696.9	845	715
1972	1,069.2	795	510
1973	2,135.7	2,070	1,405
1974	2,028.8	1,445	810

This hypothesis is also supported by the fact that total military deliveries, including grants, after 1967 closely follow the level of export residuals (as shown in the table and the graphic) until 1974. The unusually large discrepancy in 1974 cannot be explained. The reasons may become clearer when 1975 trade data are available.

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