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THE SOVIET UNION AND THE THIRD WORLD:  
THE ECONOMIC DIMENSION

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March 1986



Occasional Paper OPS-005

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THE SOVIET UNION AND THE THIRD WORLD: THE ECONOMIC DIMENSION

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February 1986

Revision of a paper prepared for a conference on "The Soviet Union and the Third World: The Last Three Decades," sponsored by the Rand-UCLA Center for the Study of Soviet International Behavior, Bellagio, Italy, November 11-15, 1985.



## I. INTRODUCTION

Ill-used as the canonical Leninist quotation may be, it still seems a useful prism through which to overlook thirty years of Soviet economic involvement in the third world: "Socialism has exerted and continues to exert its main influence on world development through its economic policy and through its successes in the socio-economic field." An optimistic perception of Soviet power and its economic foundations emboldened the Khrushchev regime in the breakthrough and encouraged wide-ranging commitments. Economic realism after Khrushchev's overthrow led to a restructuring of Soviet economic aid, emphasizing greater economic contributions. Economic stringency in the last years of Brezhnev and in the brief interregnum was probably mainly responsible for limiting the extent of aid to marginal clients. The evident lack of "successes in the socio-economic field" in the USSR along with the general failure of dirigiste planning and public sector industrialization in the developing countries made the Soviet economic model of diminishing interest to developing country policymakers; these factors also seriously complicated Soviet efforts to understand the "laws" of third world development. Such handicaps are bound to continue to "exert...[a] main influence" on Soviet ability to extend its position in the third world.

This paper surveys some of the outstanding issues and changes in the economic dimension of Soviet involvement in the non-communist third world.<sup>1</sup> It attempts to pull together the salient features of what we know--in a personal interpretation, of course--not to provide a piece of original research into the basic issues. After surveying the

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<sup>1</sup> "Third World," "LDCs" (less developed countries), "developing countries" are used interchangeably in this paper. The rubric "non-communist" in U.S. government statistics generally means the exclusion of China, Kampuchea, North Korea, Laos, Mongolia and Vietnam in Asia, and Cuba in the Western Hemisphere. Afghanistan after 1979 is *not* excluded. In earlier years Albania and Yugoslavia were included in the group of communist developing states, but they will not be dealt with in this paper. Neither is China. Here, the term "communist developing states" refers to North Korea, Mongolia, the three Indochinese states, and Cuba.

development of Soviet arms transfer, economic aid and trade relations, the paper concludes with some reflections on elements of the balance of Soviet effectiveness and prospects for future change.

## II. ARMS TRANSFERS

It was with arms sales that the Soviet Union began its postwar active involvement in the third world, and they have continued to be the principal instrument of the extension of Soviet influence and presence. The USSR has been the largest arms exporter to the developing countries for at least the past five years.<sup>1</sup> Apart from their political-military utility, which presumably falls outside the domain of this paper, arms sales have made a major contribution to the Soviet hard currency balance of payments in the last decade; as noted below, they probably bring other economic benefits.

Getting a good quantitative picture of Soviet arms-transfer relations with the LDCs is not easy, because of Soviet secrecy and the general tendency of Moscow's clients to observe the patron's injunctions for discretion. The Central Intelligence Agency (CIA) releases estimates in its statistical annual<sup>2</sup> of total deliveries and agreements for non-communist countries but has published no regional detail since 1980.<sup>3</sup> The Defense Intelligence Agency (DIA) generally provides fragmentary information in its annual appearances before the Congressional Joint Economic Committee, but the latest information was for 1983.<sup>4</sup> The arms transfer figures published by the U.S. Arms Control

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<sup>1</sup> Since 1977, according to the U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfer, 1985*, Washington, D.C., August 1985, p. 20, since 1980, according to DIA in 1983, reported in *Allocation of Resources in the Soviet Union and China--1983*, Joint Economic Committee, U.S. Congress, U.S. Government Printing Office, Washington, D.C., 1984, p. 15.

<sup>2</sup> CIA, *Handbook of Economic Statistics, 1985*, Washington, D.C., September 1985, is the latest edition of this annual.

<sup>3</sup> CIA, *Communist Aid Activities in Non-Communist Less Developed Countries, 1979 and 1954-79*, October 1980.

<sup>4</sup> *Allocation of Resources in the Soviet Union and China--1983*. In 1984 (*Allocation of Resources in the Soviet Union and China--1984*, Joint Economic Committee, U.S. Congress, U.S. Government Printing Office, Washington, D.C., 1985) the DIA apparently made no presentation on arms transfers.

and Disarmament Agency (ACDA) are said to be "estimates by U.S. government sources," qualified as "approximations based on limited information."<sup>5</sup> Because of differences in period and groups of recipients covered, the ACDA data are difficult to compare with the CIA figures.<sup>6</sup> Moreover, it is difficult to distinguish aid from sales in Soviet transfers, as the U.S. government data provide no clue on the distribution among these elements. It seems prudent, therefore, to speak of military aid *and* trade in discussing Soviet arms transfers.

The U.S. government estimates, as well as those compiled by SIPRI, the Stockholm International Peace Research Institute, have been challenged by Moshe Efrat as substantially underestimated, by factors of about 1 1/2 to 2 or more, based on information he compiled from a variety of Arab sources.<sup>7</sup> It is not possible to assess his critique

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<sup>5</sup> ACDA, *World Military Expenditures and Arms Transfers, 1985*, p. 143.

<sup>6</sup> ACDA's definition of developing countries embraces the communist LDCs including China and Yugoslavia. CIA excludes all these countries. If one subtracts Soviet extensions to China, Kampuchea, North Korea, Laos, Mongolia, Vietnam, Bulgaria, Yugoslavia (both considered LDCs) and Cuba from the ACDA cumulative total for LDCs in 1979-1983, the ACDA figure is \$40.1 billion compared to the CIA sum of \$44.7 billion, a difference of 12 percent. The reasons for the difference are not known.

<sup>7</sup> Moshe Efrat, "The Economics of Soviet Arms Transfers to the Third World," in Peter Wiles and Moshe Efrat, *The Economics of Soviet Arms*, Suntory-Toyota Centre for Economics and Related Disciplines, London School of Economics and Political Science, May 1985.

The SIPRI estimates are published in its annual *World Armaments and Disarmament SIPRI Yearbook 19--*. SIPRI draws its information from public (non-Soviet) sources, consisting "mainly of reports from recipient countries, or accounts in the large number of newsletters, journals and reference works which attempt to identify transactions and inventories." The register maintained is of exports of (apparently) major weapons only, which are priced according to the Western weapon most closely matching the Soviet system. (*SIPRI Yearbook 1983*, International Publications Service, Taylor and Francis Inc., New York, 1983, pp. 361-362.) The actual values of exports estimated by SIPRI are substantially below the CIA figures of deliveries in the period since 1975. Some of the difference may be explained by SIPRI's use of constant 1975 dollar prices as weights, whereas the CIA figures are in current prices, but in 1976-1978 alone, the CIA figures are almost double the SIPRI estimates. (SIPRI figures from *SIPRI Yearbook 1984*, Taylor and Francis, Inc., London, 1984, pp. 214-215; CIA figures from Table 1). The SIPRI figures are not broken down by region or country of delivery. For SIPRI's criticism of U.S. government figures, see *SIPRI Yearbook 1984*, pp. 180-183.



here, in view of the inaccessibility of his sources and the security classification of the U.S. government data. Moreover, Efrat provides no regional breakdowns. We have no choice, therefore, but to rely on the U.S. government materials, such as are available.

Moscow's arms relations with the third world began with the Czech-Egyptian arms deal, a \$250 million venture. In the decade and a half that followed that audacious breakthrough, Soviet arms supply broadened and deepened, but deliveries still averaged only about \$350 million annually (Table 1). The next 15 years, however, witnessed an extraordinary surge in Soviet arms supply. The average annual value of deliveries in 1970-1984 was 14 times and the value of agreements 15 times as high as in the first 15-year period. If Soviet sales averaged \$500 million a year a decade after the Czech-Egyptian deal, the next 10 years brought the annual value of agreements to the \$5 billion region, and in the late 1970s and early 1980s agreements pierced the \$10 billion mark.

The mid-1970s are clearly a watershed in Soviet arms relations with the LDCs. There had been a considerable upswing as a direct and indirect result of the Six Day War in 1967, but even in that boom the Soviets were still selling relatively second-line equipment to countries with sharply limited exchange budgets. Both those conditions changed in the 1970s: The oil price revolution brought the wealth that fueled the inflamed demands after the 1973 War; increasing competition with Western suppliers and the demands of clients forced the Soviet Union to offer much more sophisticated, often first-line equipment. New opportunities developed in sub-Saharan Africa (Angola, Ethiopia, Mozambique). One should not fail to note that Soviet supply prices also rose markedly in the heady new market.

Eastern Europe is a junior but not negligible partner in the arms supply business. Its annual average rate of deliveries in 1970-1984 was 11 times larger than in the first 15-year period, the rate of its agreements 12 times higher. Deliveries are now fluctuating near the \$2 billion level annually. For Eastern Europe, too, the mid-1970s saw a jump in sales, but the early 1980s brought even more remarkable increases, directed primarily to Africa and the Middle East.

Table 1

SOVIET AND EAST EUROPEAN MILITARY AID AND TRADE WITH NON-COMMUNIST LDCS:  
TOTAL AGREEMENTS AND DELIVERIES, 1955-1969, 1970-1984

(Million Current \$)

	<i>Soviet</i>		<i>East European</i>	
	<i>Agreements</i>	<i>Deliveries</i>	<i>Agreements</i>	<i>Deliveries</i>
1955-1969	5,875	5,060	935	840
1970	1,150	995	50	75
1971	1,590	865	120	125
1972	1,680	1,215	155	75
1973	2,890	3,135	130	130
1974	5,735	2,225	600	210
1975	3,185	2,035	635	275
1976	6,140	3,110	355	350
1977	9,645	4,815	650	355
1978	2,700	6,075	560	550
1979	8,835	8,340	750	645
1980	14,635	8,125	870	635
1981	6,505	8,105	2,560	1,315
1982	11,765	8,065	1,795	1,970
1983	2,995	7,130	1,310	1,060
1984	9,155	7,135	845	1,845
1970-1973	7,310	6,210	455	405
1974-1979	36,240	26,600	3,550	2,385
1980-1984	45,055	38,560	7,380	6,825
1970-1984	88,605	71,370	11,385	9,615

SOURCES: 1955-1969, 1970 and 1971--CIA, *Communist Aid Activities in Non-Communist Less Developed Countries, 1979 and 1954-79*, October 1980, p. 13; 1972-1973, Department of State, *Soviet and East European Aid to the Third World, 1981*, Washington, D.C., February 1983, p. 4; 1974--CIA, *Handbook of Economic Statistics 1984*, September 1984, p. 109; 1975-1984--CIA, *Handbook of Economic Statistics 1985*, September 1985, p. 109.

Note: There are slight differences between the cumulative total for 1954-1974 shown in the 1985 *Handbook* (the first annual figure is for 1975) and the 1955-1974 sum of the entries for this period in the table above, as follows:

	<i>Soviet</i>		<i>East European</i>	
	<i>Agreements</i>	<i>Deliveries</i>	<i>Agreements</i>	<i>Deliveries</i>
1985 Handbook	18,910	13,520	2,010	1,450
Table	18,920	13,495	1,990	1,455

The largest difference is of 1 percent in East European agreements.

The geographical distribution of Soviet arms transfers has also undergone some change (Table 2).<sup>8</sup> Africa, North and sub-Saharan, assumed considerably greater relative importance in the last half of the 1970s compared with the previous 19 years. Part of this is a statistical artifact: East Asia disappears from the tabulation because Vietnam is now considered in the class of direct communist allies. However, if East Asia were subtracted from the 1956-1974 totals, the relative decline of the Middle East in the latter 1970s would be more marked. It appears that in the early 1980s, the relative weight of the Middle East moved back toward its previously dominant position. Major arms agreements with Iraq and Syria are a principal cause. The increased weight of South Asia relative to the 1975-1979 period reflects large deliveries to India and Afghanistan.

Although the data are incomplete, it seems clear that Soviet arms deals are still heavily concentrated by value among a few major clients. Through 1981, Libya was the single largest non-communist Soviet arms client, with some \$15 billion of military equipment and supplies purchased, of which half had already been delivered.<sup>9</sup> In the early 1980s, that honor went to Syria. According to the ACDA figures for 1979-1983, ten countries (Afghanistan, Algeria, Angola, Ethiopia, India, Iraq, Libya, Syria, North Yemen and South Yemen) account for over 90 percent of the total transfers to non-communist LDCs; 72 percent of the total is directed to five countries (in descending order, Syria, Iraq, Libya, India and Algeria). Despite the reaching out into new regions, Soviet attention remains concentrated on the arc of countries from North Africa to India that are "close to the USSR's southern frontiers."<sup>10</sup>

<sup>8</sup> The totals in Table 2 are more or less identical with those in Table 1 for the period 1956-1974 but there are varying differences for the other two periods (million \$):

	1975-1979		1979-1983
	Agreements	Deliveries	Deliveries
Table 1	30,505	24,375	39,765
Table 2	28,385	21,845	38,285
% difference,			
Table 1 vs Table 2	7	12	4

<sup>9</sup> U.S. Department of State, *Soviet and East European Aid to the Third World, 1981*, Washington, D.C., February 1983, p. 9.

<sup>10</sup> Of course, absolutely small amounts of arms aid can make a significant difference in the less arms-rich environments of certain third world countries, e.g., Central America.

Table 2

SOVIET MILITARY AID AND TRADE WITH NON-COMMUNIST LDCS:  
AGREEMENTS AND DELIVERIES BY REGION

1956-1974, 1975-1979, 1979-1983

	1956-1974		Million current \$ 1975-1979		1979-1983
	Agreements	Deliveries	Agreements	Deliveries	Deliveries
North Africa	2,805	665	8,155	6,500	9,000
Sub-Saharan Africa	715	410	3,920	3,120	4,910
East Asia	890	885	-	-	-
Latin America	205	30	765	645	540
Middle East	11,980	9,375	12,465	9,300	20,375
South Asia	2,330	2,130	3,080	2,280	5,250
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	18,925	13,495	28,385 <sup>a</sup>	21,845	40,085 <sup>b</sup>
			<i>Percent of total<sup>c</sup></i>		
North Africa	15	5	29	30	22
Sub-Saharan Africa	4	3	14	14	12
East Asia	5	7	-	-	-
Latin America	1	-	3	3	1
Middle East	63	69	44	43	51
South Asia	12	16	11	10	13
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Total	100	100	100	100	100

<sup>a</sup> The actual total is \$35 million higher because of rounding errors.

<sup>b</sup> Includes \$10 million for Papua New Guinea.

<sup>c</sup> Sum of components may not add to total because of rounding.

SOURCES: 1956-1974 and 1975-1979--CIA, *Communist Aid Activities in Non-Communist Less Developed Countries, 1979 and 1954-79*, October 1980, p. 14. (The CIA annual total figures for 1975-1979, from which the cumulative sums were computed, differ from those given in U.S. Department of State, *Soviet and East European Aid to the Third World, 1981*, Washington, D.C., February 1983, Table 6, but the largest relative change, for deliveries in 1979, is only 15 percent; hence, the structure is not likely to have been significantly affected by later corrections); 1979-1983--ACDA, *World Military Expenditures and Arms Transfers, 1985*, Washington, D.C., August 1985, Table III.

The CIA does not publish figures on Soviet (or East European) arms transfers to communist countries. The only regular U.S. government source for these data is ACDA, whose estimates are shown for selected periods in Table 3. For the periods 1975-1979 and 1979-1983, the ACDA numbers indicate that arms deliveries to the communist countries (excluding China) add 12 and 24 percent, respectively, to the total volume of arms shipments to the non-Communist LDCs (Table 2). The increase in transfers to the communist countries between the two periods was about two and a half times, compared to a growth of 83 percent in deliveries to non-communist countries. Thus, a global arms transfer series would show more rapid growth than is indicated in Table 1. The effect on the pattern of regional distribution, of course, is to significantly increase the shares of East Asia and Latin America at the expense of the other regions.

Table 3

ACDA ESTIMATES OF SOVIET MILITARY DELIVERIES TO COMMUNIST LDCS

(Million Current \$)

	1967-1976	1975-1979	1979-1983
China	191	210	130
Kampuchea	5	20	170
North Korea	480	280	210
Laos	15	100	180
Mongolia	30	120	625
Vietnam	2,481	1,300	5,200
Cuba	355	875	3,100
Total	3,202	2,905	9,615
Total, excl. China	3,011	2,695	9,485
Average Annual	301	539	1,897

SOURCE: ACDA, *World Military Expenditures and Arms Transfers: 1967-1976*, Washington, D.C., July 1978, Table VIII (col. 1); *1970-1979*, Washington, D.C., March 1982, Table III (col. 2); *1985*, Washington, D.C., August 1985, Table III (col. 3).

Soviet military transfers to non-communist LDCs once had substantial aid elements, even if only in terms of the soft currency with which they were paid. That situation too was sharply changed in the 1970s as Moscow insisted increasingly on hard currency settlement. Moreover, equipment sales may have benefited from price discounts-- at least from a nominal base price--and standard aid features, such as 10 or 12-year credits at relatively low interest, but other components of the arms agreements, support and infrastructure, were much less likely to be supplied on concessionary terms. Not all arms sales to LDCs now require payment in hard currency; Moscow is still prepared to be flexible on terms when political considerations are uppermost. Economics may largely explain the ongoing, massive Libyan connection, but it is doubtful that it explains the Syrian 1982 arms deal. It is, however, not possible to quantify these sketchy qualitative indicators.

One should also note in passing that the sharp increase in Soviet arms sales in the 1970s must have had a negative impact on the transportation and distribution network required to transfer weapons, materiel, parts and supplies from the USSR to the purchasing country. However, economies of scale resulting from high-volume exports could have helped keep a lid on the escalation of costs in Soviet domestic military development and procurement. The step-up in sales may have also reduced Soviet military inventory costs.

If the 1970s upsurge in Soviet arms sales is explained in large part by the oil price revolution, the recent softening of energy markets may presage an easing of LDC demand. Libyan oil income has dropped precipitously from about \$22 billion in 1980 to about \$8 billion in 1985, and signs of belt tightening in both civil and military sectors abound.<sup>11</sup> Saudi Arabia, the financial angel of many Middle East purchases from both the USSR and the West, is also hurting and seems reluctant to continue its largesse. On the other hand, the LDC demand for Soviet arms may not be highly income-elastic and the supply of third world conflict seems inexhaustible. Also, falling oil prices in the

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<sup>11</sup> Gerald F. Seib, "Lower Oil Prices Put the Squeeze on Libya and Its Military Costs," *Wall Street Journal*, October 3, 1985, p. 1.

world market and stagnation of domestic Soviet oil production threaten sizable reductions in Soviet hard currency earnings. This underscores the importance to Moscow of arms exports for hard currency and suggests the possibility of shaving prices to maintain high volume. Table 1 shows some tendency to decline in the trend of deliveries after 1979, although there was an upward spurt in the volume of agreements in 1984. Soviet arms transfers may grow more slowly in the future than they did in the last part of the 1970s, but the Kremlin will probably exert itself to maintain the hard currency component at high levels.

### III. ECONOMIC AID

Arms transfer was the principal instrument with which the USSR pried open the third world but economic aid has been a major supplementary tool. Before there was an Egyptian-Czech arms deal there were trade or aid agreements with Argentina and India in 1953 and Afghanistan in 1954. In some countries at particular times, the economic aid has been more important, although there has been substantial overlap between the two, especially in the earlier years. In any case, economic aid serves some of the same political purposes--demonstrating support, gaining access, helping to maintain politically valuable clients. Often enough, however, it also serves economic ends. Perhaps the most important but also least known fact about Soviet aid is that the overwhelming majority of it is given to three communist allies--Cuba, Vietnam and Mongolia.

In the 1950s and 1960s, Soviet economic aid extensions to non-communist LDCs (Table 4) were actually larger than the counterpart arms agreements, although deliveries were considerably more rapid in arms transfers. Average annual rates of extension of economic aid that ran about \$400 million in 1954-1969 increased some 70 percent in the first part of the 1970s but jumped sharply in the second half of the decade, to a level of over \$2 billion. The annual average stabilized in the first half of the eighties and is considerably lower than the peak levels in 1978-1979. Deliveries increased more slowly than extensions; the average annual rate of deliveries was not much higher in the late 1970s than in the earlier part of the decade. However, they picked up smartly in the first half of the 1980s, probably in fulfillment of the larger extensions in 1978-1980. This pattern is reflected in a fluctuating ratio of deliveries to extensions: Deliveries averaged almost half as much as extensions in 1954-1969; the ratio jumped to 70 percent in 1970-1974, dropped sharply to 25 percent in the second half of the 1970s, and rose markedly again in the 1980s, to 60 percent. By contrast, the arms delivery ratio was generally 80-85 percent; only in one of the subperiods shown in Table 1 was it as low as 73 percent.



Table 4

SOVIET AND EAST EUROPEAN ECONOMIC AID TO LDCS  
TOTAL EXTENSIONS AND DELIVERIES, 1954-1969 AND 1970-1983

(Million current \$)

	Soviet		East European	
	Agreements	Deliveries	Agreements	Deliveries
1954-1969	6,565	3,225	2,790	910
1970	200	390	195	145
1971	1,125	420	485	190
1972	655	430	925	175
1973	715	500	630	230
1974	815	700	840	235
1975	1,970	500	545	270
1976	1,080	475	995	405
1977	435	545	525	505
1978	3,000	485	1,600	425
1979	3,800	580	645	305
1980	2,605	815	1,325	315
1981	600	860	725	485
1982	1,015	1,190	560	650
1983	3,265	1,435	415	680
1984	2,150	1,495	1,500	660
1970-1974	3,510	2,440	3,075	975
1975-1979	10,285	2,585	4,310	1,910
1980-1984	9,635	5,795	4,525	2,790
1970-1984	23,430	10,820	11,910	5,675

SOURCES: 1954-1969, 1970 and 1971--CIA, *Communist Aid Activities...1979 and 1954-79*, p. 17; 1972 and 1973--U.S. Department of State, *Soviet and East European Aid...1981*, p. 16; 1974--CIA, *Handbook of Economic Statistics 1984*, p. 109; 1975-1984--CIA, *Handbook of Economic Statistics 1985*, p. 109.

Note: There are slight differences between the cumulative total for 1954-1974 shown in the 1985 *Handbook* and the 1955-1974 sum of the entries in this table, as follows:

	Soviet		East European	
	Agreements	Deliveries	Agreements	Deliveries
1985 <i>Handbook</i>	10,080	5,670	5,830	1,900
Table	10,075	5,665	5,865	1,885

That comparison says much about the immediacy of the typical arms transfer agreement to the LDCs and the long-term character of the economic aid deliveries.

Table 4, like those preceding it, is valued in current dollars, that is, gross of price inflation. Regrettably, no estimates in constant dollars are available, but it is useful to remind ourselves that the 1970s were a period of high rates of increase in the prices of goods traded in the world market. A very approximate indication of the size of this factor may be gleaned by using the Soviet implicit price deflator for trade turnover with all non-socialist countries, which came to 55 percent in 1983 on a 1975 base.<sup>1</sup> If we take a three-year average centering on 1975 and 1983, the nominal increases in Soviet agreements and deliveries between the two dates are 66 and 146 percent respectively; deflated by the Soviet trade price index, the "real" increases are reduced to 7 and 59 percent, respectively. It is also apparent that the three-year average for extensions centering on 1983 is absolutely lower in both nominal and real terms than the counterpart average centering on 1979. The Soviets appear to have been in a less generous mood in recent years.

If East Europe was a distinctly junior partner to the USSR in the business of arms transfers to the LDCs, it was, in relative terms, a more senior partner in the extension or delivery of economic aid. Considering the entire thirty-year history of modern Soviet third world involvement, East Europeans promised and provided about half as much economic aid as did the Soviets but sold and delivered only about one-seventh as much in armaments. However, the cumulative total value of East European economic aid agreements is only a fifth larger than its military aid agreements; in contrast, East European military deliveries have been almost 60 percent larger than its economic aid deliveries. The delivery-to-agreement ratio has been even higher in East European than in Soviet arms transfers, whereas in economic aid the ratios are more nearly equal.

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<sup>1</sup> Ministerstvo vneshnei torgovli, *Vneshniaia torgovlia SSSR*, Moscow, the annuals of 1976 and 1983, dividing the real volume index by the change in values at current prices.

Table 4 indicates fluctuating levels of Soviet economic aid commitments throughout the last 15 years. Behind these aggregate figures lie some interesting shifts in country and regional composition. The data are not easy to reconcile but what is known is shown in Table 5.<sup>2</sup>

In its initial, Khrushchevite period, Soviet aid was heavily concentrated in three countries: Egypt, Afghanistan and India accounted for 61 percent of the total. India remained a favorite in the first half of the Brezhnev period, but Egypt's relative role, of course, diminished after Nasser's death. Aid was extended in relatively large volumes to Iran, Pakistan and Turkey. Thus, while the overall share of the Middle East and South Asia remained about the same, the country distribution changed significantly. This was the result of the Brezhnev-Kosygin reassessment after Khrushchev's ouster.<sup>3</sup>

In the second half of the 1970s, major agreements were concluded with Morocco and Turkey, while the Indian component was sharply lower. Through the end of the 1970s, the Soviets had provided \$7.9 billions of aid to the Middle East, more than 60 percent of it to Turkey, Iran and Egypt (Syria and Iraq getting an additional 19 percent). About \$5 billion was extended to South Asia, with over 70 percent going to India and Afghanistan (another 18 percent to Pakistan). The aggregate volumes of aid to sub-Saharan Africa and Latin America were small, \$1.2 and \$1 billion, respectively, but the distribution in these areas was also concentrated: Argentina, Chile and Columbia received 69 percent of the Latin American total; Ethiopia, Guinea and Somalia accounted for half

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<sup>2</sup> The totals in Table 5 for 1955-1974, 1975-1979, and 1980-1981 differ from the figures shown in Table 4 for unknown reasons. In Table 5 they are taken from earlier State Department and CIA sources and in Table 4 largely from the most recent CIA *Handbook*.

<sup>3</sup> Francis Fukuyama cites Nadav Safran's *From War to War: The Arab-Israeli Confrontation, 1948-1967*, Pegasus, New York, 1969, p. 128, and Lawrence Whetton's *The Canal War: Four-Power Conflict in the Middle East*, MIT Press, Cambridge, Massachusetts, 1974, p. 31, as sources for a Kremlin policy reconsideration, in "The Domestic Roots of Soviet Third World Policy," paper delivered at a conference on "Domestic Sources of Soviet Foreign and Domestic Policy," University of California at Los Angeles, October 10-11, 1985.

Table 5  
SOVIET ECONOMIC AID AGREEMENTS TO NON-COMMUNIST LDCs BY REGION, SELECTED PERIODS

	1955-64	1965-74	1975-79	1980	1981	1982	1983	1984
	Million current \$							
Africa	740	680	2,700	625	125	696	588	544
North Africa	250	300	2,365	315	-	negl.	277	8
Algeria	230	195	290	315	-	-	250	-
Morocco	-	100	2,000	-	-	-	-	-
Tunisia	20	-	75	-	-	-	27	-
Mauritania		10			-	negl.	-	8
Sub-Saharan Africa	490	380	335	310	125	696	311	536
Ethiopia	100	-	125	-	10	-	266	268
Others		905		55	15	38	20	182
Unidentified		70		255	100	658 (a)	25	86
Middle East	1,450	2,520	3,895	-	55	3	1,632	1,273
Egypt	1,000	440	-	-	-	-	360	-
Iran	65	725	375	-	-	-	n.a.	-
Iraq	185	370	150	-	-	-	1,000	453
North Yemen		143 (b)		-	-	-	-	-
South Yemen		204 (b)		-	-	-	-	-
Syria	100	360	310	-	-	-	-	-
Turkey		2,380 (b)		-	-	-	-	-
Unidentified		c.1,060		-	55	3	272	820
South Asia	1,440	2,355	1,185	1,195	100	90	861	325
Afghanistan	530	300	450	395	25	90	371	325
Bangladesh		304 (b)		-	70	-	73	-
India	810	1,130	340	800	-	-	140	-
Pakistan	40	655	225	-	-	-	277	n.a.
Sri Lanka		158 (b)		-	-	-	-	-
Nepal		30 (b)		-	5	-	-	-
East Asia	150	110	negl.	-	-	-	-	-
Kampuchea-Laos		30		-	-	-	-	-
Other		230		-	-	-	-	-
Latin America	30	595	340	250	170	176	182	8
Nicaragua				-	80	?	?	?
TOTAL	3,805	6,255	8,120	2,070	445	965	3,263	2,151

Table 5 (con't)

	Percent of total (c)				
	1955-1964	1965-1974	1975-1979	1980-1984	
North Africa	7	5	29	7	
Sub-Saharan Africa	13	6	4	22	
Middle East	38	40	48	33	
South Asia	38	38	15	29	
East Asia	4	2	-	-	
Latin America	1	10	4	9	
Total (c)	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Negl, n.a. = negligible or not available, according to source.  
 (a) The figure in the source is 660; it has been lowered to fit within the stated total for Africa.

(b) 1954-1978.

(c) Discrepancies between totals and sum of components are due to rounding.

SOURCES: 1954-1978 (North Yemen, South Yemen, Turkey, Bangladesh, Sri Lanka, Nepal)--CIA, "Communist Aid Activities in Non-Communist Less Developed Countries 1978," September 1979, pp. 7-10; 1955-1964, 1965-1974 and 1975-1979--CIA, "Communist Aid Activities...," 1979 and 1954-79," pp. 7, 18-20, 39; 1980-1981 and Nicaragua 1955-1980--U.S. Department of State, "Soviet and East European Aid...," 1981, pp. 17-19; 1982--CIA, "Handbook of Economic Statistics 1984," September 1984, p. 110; 1983-1984--CIA, "Handbook of Economic Statistics 1985," September 1985, p. 110.

the sub-Saharan Africa total. The higher profile of Soviet involvement in black Africa in the 1970s expressed itself primarily on the military, not the economic aid side.

In the first half of the 1980s, the geographic structure alters distinctly. A sharp decline in the North African and Middle Eastern shares is balanced by very substantial increases in the relative weight of sub-Saharan Africa and South Asia. The CIA data fail to identify the partners for over half the Soviet aid extensions to sub-Saharan Africa, but Angola and Mozambique are presumably involved. Almost half the extensions in South Asia were directed to Afghanistan (India received about 37 percent). The relative weight of Latin America also rose, perhaps more than is indicated in Table 5, since the numbers appear conservative.

The scale of the USSR's aid to the non-communist LDCs is dwarfed by the assistance to its developing communist allies (Table 6). Soviet aid to communist LDCs in the period 1954-1977 at \$19 billion was 40 percent larger than aid to the non-communist developing countries, \$13.6 billion.<sup>4</sup> In the next six years, however, the volume of aid to communist clients shot up, according to CIA estimates, to a total of \$34 billion. In contrast, aid extensions to non-communist countries in 1983 were below the 1979 level. Two-thirds of the 1978-1983 aid to communist countries went to Cuba and another sixth to Vietnam. Aid to Mongolia lost considerably in relative magnitude. In 1981-1982, aid to Vietnam alone exceeded Soviet assistance to all non-communist LDCs, including Afghanistan. With a single exception (1979), economic aid to Cuba has exceeded by a considerable margin Soviet economic assistance to all the non-communist LDCs in every year since 1977. North Korea was promised as much aid in 1980-1983 as Algeria; only Afghanistan, Iraq and India were promised more.

In addition to its markedly larger volume, aid to the communist allies has a different character than aid to other LDCs. In the former case, development aid takes a back seat to trade subsidies. Such

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<sup>4</sup> Regrettably, a change in the scope of coverage of the CIA data precludes use of earlier CIA sources and therefore any attempt at breaking down the 1954-1977 period into smaller intervals.

Table 6

SOVIET ECONOMIC AID EXTENDED TO COMMUNIST DEVELOPING COUNTRIES,  
SELECTED PERIODS

(Million U.S. \$)

	1954- 1977 <sup>a</sup>	1978	1979	1980	1981	1982	1983	1978- 1983	1984
Cuba	10,300	2,945	3,180	3,465	4,440	4,560	4,100	22,690	4,430 <sup>b</sup>
Vietnam	2,610	565	865	1,050	1,225	1,015	1,025	5,745	n.a.
Mongolia	5,470	690	685	835	815	870	865	4,760	n.a.
North Korea	665	35	75	260	145	130	50	695	n.a.
Total	19,045	4,235	4,805	5,610	6,625	6,575	6,040	33,890	n.a.

Percent of Total

	1954-1977 <sup>a</sup>	1978-1983	1954-1983
Cuba	54	67	62
Vietnam	14	17	16
Mongolia	29	14	19
North Korea	3	2	3
	100	100	100

n.a. = not available

<sup>a</sup> Cuba--1961-1977

<sup>b</sup> Preliminary

SOURCES: CIA, *Handbook of Economic Statistics 1985*, p. 113, Table 80. The first column in Table 80 is mislabeled 1954-83; it is actually 1954-82 (see the 1984 *Handbook*, p. 117). The figures for Cuba given in Table 80 are in a few cases different from those shown in Table 81 (on the same page), which provides a distribution of aid to Cuba by type of assistance. The differences come to \$105-\$160 million, 2-4 percent of the smaller totals shown above. I am told the figures in Table 81 are later, revised estimates.

subsidies accounted for 85 percent or more of all assistance to Cuba in the last half of the 1970s and their share is now still up around 75-80 percent.<sup>5</sup> By the same token, the gap between extensions and deliveries

<sup>5</sup> CIA, *Handbook 1985*, p. 113.

of aid, focused on trade subsidies, will be much smaller for the communist LDCs. Accordingly, if 70 percent of total Soviet economic aid extensions in 1978-1983 was directed to communist countries, the non-communist LDC share in actual deliveries was probably considerably below 30 percent, perhaps less than 20 percent.

By the West's calculation and its comparative judgment, the scale of direct Soviet aid to the non-communist LDCs is small. The \$1,435 million of Soviet aid deliveries to non-communist LDCs in 1983 was one-eighth as large as U.S. gross official bilateral transfers to the LDCs in the same year.<sup>6</sup> Not so, according to Moscow, whose ambassador to the United Nations declared at a July 1982 meeting of the UN Economic and Social Council that Soviet *net* aid outlays to the LDCs in 1976-1980 came to 30 billion rubles, roughly \$40-45 billion at average exchange rates of the period, and accounted for 1.3 percent of Soviet national output in 1980. Table 4 indicates that Soviet *gross* deliveries on aid agreements in that five-year period came to only \$2.9 billion, or about 6 or 7 percent of the Soviet claim.<sup>7</sup> The claim probably includes aid outlays on the USSR's communist developing allies, excluded from Table 4, but that addition would be quite insufficient to reconcile the two figures. What else is included in the Soviet claim is not known, and the absence of any detail does not inspire confidence.<sup>8</sup> Regrettably, there are no publicly available figures on the repayment of Soviet aid. Even with mental allowances for various debt deferrals or reschedulings, it seems likely that the annual net flow of Soviet aid is tangibly smaller than the gross.<sup>9</sup>

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<sup>6</sup> CIA, *Handbook 1985*, p. 114. Soviet aid to communist LDCs would reduce that gap by an unknown amount (CIA publishes data only on extensions to communist LDCs, not deliveries).

<sup>7</sup> British official estimates of the total Soviet gross disbursements are much higher, about \$10 billion. *Soviet, East European and Western Development Aid, 1976-1982*, Foreign Policy Document No. 85, Foreign and Commonwealth Office, London, 1983.

<sup>8</sup> For an effort to reconcile the Soviet claim with other available information, which comes up considerably short of the Soviet figure, see Quintin V. S. Bach, "A Note on Soviet Statistics on Their Economic Aid," *Soviet Studies*, 37:2, April 1985, pp. 269-275.

<sup>9</sup> In a letter to the UN Secretary-General, the United States, Britain, West Germany and Japan accused the USSR and Eastern Europe of taking four times more in UN development aid than they contributed. The Western industrial nations provided over 90 percent of the contribution to the UN's development aid agencies, whereas the communist nations added a paltry 1 percent. (Associated Press, July 18, 1985).



Long ago, Soviet leaders bluntly observed that Soviet economic aid to non-communist LDCs is not charity.<sup>10</sup> Indeed, it is on the average less "concessional" than Western aid, in terms of the general absence of grants (except to communist allies) and in the length of repayment periods--typically, 10-12 years compared to 40 years for Western aid--although probably not in magnitude of interest rates. Some Soviet aid agreements carry stiffer interest terms and may not even meet the Western concessionality criteria.<sup>11</sup> On the whole, credit terms became harder in the 1970s compared with the 1950s and 1960s. The character of the aid, although not directly a matter of the degree of grant element in the credits, also contributes to the same impression. There has been increasing emphasis on trade credits rather than project loans (the Soviets rarely provide balance of payment loans), and the aid is heavily weighted to promoting sales of Soviet machinery and equipment. Nevertheless, Soviet trade financing continues to feature interest rates considerably below those demanded in Western capital markets; unlike Western governments and lending institutions, the USSR frequently accepts goods in repayment of debts. These features of Soviet economic aid do redress the balance at least in part.

As noted, the scale of Soviet economic aid to the non-communist LDCs continued to grow in the last decade, although at a reduced pace in recent years, especially when deflated for price change. There is some

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<sup>10</sup> S. Skachkov (then Chairman of the USSR State Committee for Foreign Economic Relations), "Ravnopravie, vzaimnaia vygoda," *Pravda*, March 29, 1973. At a joint session of the two Foreign Affairs Commissions of the USSR Supreme Soviet, Delegate Stepan Chervonenko stressed that granting Soviet credits is in accord with Soviet interests, because it "stimulates the export of Soviet machinery and equipment, which improves the structure of Soviet exports. The Soviet Union receives from the developing countries in repayment valuable mineral and agricultural raw materials, manufactures and foreign currency." The same point was made by Boris Ponomarev, Secretary of the Party Central Committee and head of its International Department. *Pravda*, November 30, 1984.

<sup>11</sup> A British government estimate places the grant element in Soviet aid at about 38 percent compared with an average 70 percent in Western aid. Bach, "A Note on Soviet Statistics," p. 269 and note 6, p. 274. For a Soviet counterclaim, see L. Zevin, *MEMO*, 1985, No. 7, pp. 60-72.

evidence suggesting that Andropov was not an enthusiastic supporter of economic aid. Francis Fukuyama cites his speeches at the December 1982 and June 1983 Party Central Committee plenums, particularly the following passage:

Socialist countries express solidarity with these progressive states, render assistance to them in the sphere of politics and culture, and promote the strengthening of their defense. We contribute also, to the extent of our ability, to their economic development. But, on the whole, their economic development, just as the entire social progress of those countries, can be, of course, only the result of the work of their peoples and of a correct policy of their leadership.<sup>12</sup>

Fukuyama believes this indicates that Andropov was skeptical about the utility of the Brezhnev policy, and he concludes, "When taken together with a number of other critical statements and articles on the Third World written at around the same time, it is evident that a major policy reassessment has been going on in high Kremlin circles since Brezhnev's death." This does not appear to have had an immediate impact on aid extensions, which tripled in 1983 over the 1982 level, according to the CIA; however in 1984 extensions declined by two-thirds.

Gorbachev has not said much about his views on the Soviet role in the developing world, but it would be safe to predict that domestic economic stringencies will keep a lid on both the growth rate and the concessionality of Soviet economic aid. One might expect a continued Soviet search for the type of LDC project that also promises to contribute to Soviet development needs, and a hardening of terms--hard currency repayments, better interest rates--where possible. However, it seems safe to venture that economics will not dominate politics--any more in the future than in the past. When the issue comes down to maintaining or losing a politically important client, Moscow will surely know how to be flexible, even at a real opportunity cost.

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<sup>12</sup> "Rech' General'nogo Sekretariia Tsk KPSS tovarishcha Iu. V. Andropova," *Kommunist*, No. 9, June 1983, cited in Fukuyama, *op. cit.*

#### IV. TRADE

The value of trade turnover with the LDCs certainly rose rapidly in the past twenty-five years (Table 7)--about twenty-five times. But the relative importance of these countries in Soviet trade has hardly changed since 1965, and remains fairly low. The main structural change in Soviet trade until 1980 was the rapidly growing relative weight of trade with the industrial West at the expense of trade with the communist countries.

Table 7 follows Soviet statistics and places the communist LDCs in the group of communist countries. If we recategorize China, Cuba, Laos, Mongolia, North Korea and Vietnam as LDCs, the value of Soviet trade turnover with the LDC group would rise by the following amounts:

	1960	1970	1980	1984
Billion \$	2.1	2.0	10.3	14.3
Percent	233	63	58	64

The sharp relative increase in 1960 is explained by the still large volume of trade with China in 1960, a level which (in current prices, at least) has not yet been reattained. The five-fold increase in the value of the communist LDC trade turnover with the USSR between 1970 and 1980 is primarily the result of a four-fold increase in Cuba's trade turnover in foreign trade rubles and an almost 40 percent increase in the dollar exchange value of the foreign trade ruble. However, the findings summarized in the previous paragraph are not altered when the "communist" countries are restricted to the European members of the Council for Mutual Economic Cooperation.

The Soviets generally run an export surplus with the LDCs: The predominantly civil trade identified by country or commodity in Soviet statistics tends to be in deficit, but the sizable unidentified exports, believed to consist largely of arms, put overall trade with the LDCs in surplus. Thus, the LDCs play a somewhat larger role in Soviet exports than in the USSR's imports (13-15 and 10-12 percent, respectively, since

Table 7

VALUE AND DISTRIBUTION OF SOVIET TRADE TURNOVER BY PARTNER GROUP,  
1960-1983

(Billion current \$ and percent)

	World	Communist Countries		Developed West		LDCs	
	bill \$	bill \$	%	bill \$	%	bill \$	%
1960	11.2	8.2	73	2.1	19	.9	8
1965	16.2	11.2	69	3.2	20	1.9	12
1970	24.5	16.0	66	5.3	22	3.2	13
1975	70.5	39.7	56	22.2	31	8.6	12
1980	144.9	77.9	54	49.3	34	17.7	12
1983	172.1	96.5	56	52.0	30	23.5	14
1984	171.8	98.9	58	50.7	30	22.3	13

NOTE: Sums of percentages may not add to 100 because of rounding.

SOURCE: CIA, *Handbook of Economic Statistics*, 1985, p. 96. The figures are derived from annual issues of the handbook, *Vneshniaia torgovlia SSSR*, converted to dollars at official Soviet exchange rates.

1965). Moreover, the favorable balance with the LDCs compensates for the frequently unfavorable trade balance with the developed countries or helps finance the deficit in the USSR's capital account with the West.

Until the 1970s the dominant mode of Soviet trade with the LDCs was bilateral clearing agreements and payment in nonconvertible currency. Almost half of Soviet civilian trade with the non-communist developing countries still proceeds in this mode.<sup>1</sup> But in the mid-1970s the LDCs and the Soviets began moving to settlement in hard currency. Hard currency transactions accounted for substantially less than half of the trade turnover with the non-communist LDCs in 1970 but about 64 percent in 1984.<sup>2</sup> The predominance of hard currency trade now is true of both

<sup>1</sup> Thomas A. Wolf, "An Empirical Analysis of Soviet Economic Relations with Developing Countries," *Soviet Economy*, 1:3, 1985, p. 239.

<sup>2</sup> The figures include military deliveries which in the Soviet statistics are not identified by country. The 1984 data are from CIA, *Handbook of Economic Statistics*, 1985, pp. 71 and 96.

exports and imports; the hard currency share is about the same in both components. On the export side, this reflects the huge importance of arms transfers; on the side of Soviet imports, purchases of grain and other food products from Latin America and South Asia were salient in 1980-1981, and purchases of petroleum and products from the Middle East-North Africa have grown rapidly in recent years.

Regrettably, we do not have enough published data to provide a picture of the trend in the Soviet balance of payments with LDCs. The aggregate Soviet balance with the LDCs must have turned "hard" in the mid- and late 1970s, assuming a flow of repayments on the debt commensurate with the scale and timing of aid agreements, and allowing for the sharp jump of arms exports. In the 1980s the balance of hard currency trade with the LDCs was clearly positive for the USSR, averaging over \$2 billion. Considering that the global hard currency trade balance of the USSR was barely positive in 1981 and ran about \$4.5 billion in 1982-1983, the contribution from trade with the LDCs is substantial indeed. However, there is little information on other elements of the LDC balance, particularly the capital account.

The USSR's trade, like its economic and military aid, is highly concentrated, not surprisingly, because the two categories are closely linked. In the early 1980s, trade turnover reached or exceeded \$1 billion annually with nine LDCs--Afghanistan (1984), Argentina, Cuba, India, Iraq, Iran (but not in 1984), Libya, Mongolia and Vietnam, as well as with China (in 1984); it was at or over the \$500 million mark for four others--Brazil, Egypt, North Korea, and Syria. Together the first 10 countries accounted for 62 percent and the four others added 7 percent of Soviet trade turnover with all LDCs, non-communist and communist.

Arms transfers apart, the most important simple component of Soviet exports to the non-communist LDCs is machinery and equipment (Table 8). Indeed, the LDCs are by far the major outlets outside the communist world for Soviet machinery--some three-quarters or more of all non-communist sales in the early 1980s. However, exports of fuel came a close second in 1980. Sales of oil and products rose from \$60 million in 1970 to over \$2 billion in 1983. On the import side, food was traditionally significant but accounted for almost half of all imports

Table 8

COMMODITY COMPOSITION OF SOVIET TRADE WITH THE NON-COMMUNIST LDCS,  
1970-1980

(Percent)

	1972	1975	1980
EXPORTS			
Machinery and equipment	33	24	20
Fuel and electricity	4	10	17
Ores, concentrate and metals	5	3	1
Timber, pulp and paper	2	4	2
Food and raw materials for food	2	3	1
Industrial consumer goods	1	1	1
Chemicals, building materials, textiles, and other materials	2	5	3
Unidentified residual	51	50	55
IMPORTS			
Machinery and equipment	1	1	1
Fuel and electricity	13	19	14
Chemicals and products	5	4	5
Textile raw materials	17	12	5
Food and raw materials for food	35	44	48
Industrial consumer goods	12	9	7
Ores, concentrates and metals	4	4	3
Timber, pulp and paper	1	1	1
Other materials	8	5	7
Unidentified residual	5	3	9

NOTE: Sums of components may not add to 100 because of rounding.

SOURCE: Thomas Wolf, "Changes in the Pattern of Soviet Trade with the CMEA and the 'Non-Socialist' Countries," in *External Economic Relations of CMEA Countries: Their Significance and Impact in a Global Perspective*, NATO: Economics and Information Directorates, Brussels, 1983, p. 223.

from the third world in the year of the grain embargo. Fuel imports were a relatively large factor in the late 1970s and probably became still more important recently, mainly as payment for Soviet arms but secondarily as a consequence of the stagnation of Soviet domestic oil production.

These data relate to values at current prices and this is about all one can get from the official Soviet sources.<sup>3</sup> Thomas Wolf has made independent calculations,<sup>4</sup> and he estimates that the real growth of Soviet civil exports in the 1970s was rather slow--virtually zero in the first half of the decade and 1 1/2 to 3 1/2 percent per year in the second half. It was the unidentified residual in Soviet exports--presumably, largely arms--that exhibited dynamic growth, perhaps 10-15 percent per year. This reflected sharp differences in the price trends for the two components. The prices of Soviet identified exports rose much more than prices of the residual, probably because of the extraordinary increases in oil prices on the world market. Overall, however, it is possible that the prices paid the LDCs for imports rose more rapidly than the prices obtained for all Soviet exports and that the USSR's net barter term of trade with the third world declined somewhat during the 1970s. But here too there were structural changes: Terms of trade fell in the second half of the 1970s with the third world countries of "socialist orientation" and even more with the oil exporters, but they increased with other LDCs. In real terms, therefore, Soviet *civil* exports grew more rapidly in the 1970s to the "socialist-oriented" clients and the oil exporters than to other LDCs; on the import side, the importance of food made real growth largest with the other LDCs.

Despite the importance of arms transfers in selected countries, the Soviet Union has been a dominant trade partner for very few non-communist LDCs; in most cases Moscow's dominant position weakened in the 1970s. Among countries who report trade with the Soviet Union to the International Monetary Fund, the Soviet share in the LDC's exports decreased in 29 cases and increased in 26; the Soviet share in the LDC's imports declined in 42 of 63 cases. Of nine LDCs with significant trade

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<sup>3</sup> *Vneshniaia trgovlia* provides indexes of real volumes of exports and imports for the world total, and for the socialist countries subaggregate; the developing and industrially developed countries are lumped together in a second subaggregate.

<sup>4</sup> Thomas Wolf, "Soviet Trade with the Third World: A Quantitative Assessment," *Osteuropa Wirtschaft*, 30:4, December 1985, pp. 273-295.

with the USSR but who do not report it to the International Monetary Fund (IMF), six had Soviet shares in their imports or exports as high as 10 percent or more in the early but not in the late 1970s. Wolf concludes: "What evidence that exists thus does not suggest widespread high Soviet trade shares in the Third World."<sup>5</sup>

The data supplied here tend to undermine Moscow's official mythology about Soviet trade with the LDCs. Their share in total Soviet trade has not been growing; payments arrangements may have grown harder. The USSR claims that it is a large market for nontraditional exports, thereby helping the LDCs out of their development rut, but in fact raw materials and agricultural commodities are the staples of Soviet purchases.

Another main component of the Soviet mythology is that developed socialist countries provide stable and rapidly growing markets for LDC exports. While Soviet demand for LDC exports certainly grew rapidly in the late 1950s and the 1960s, the initial base was insignificant, and the margin over the rate of change of Western demand was small in the 1960s.<sup>6</sup> Wolf compared trade data in the period 1960-1981 for the USSR and West Germany, Japan and the United States and 7 of 10 UNCTAD (United Nations Conference on Trade and Development) "core" commodities--raw sugar, coffee, cocoa beans, tea, natural rubber, raw cotton and jute--plus rice and tobacco.<sup>7</sup> He concludes that growth of Soviet imports of these primary products grew at an above average rate. However:

The USSR cannot legitimately claim that it represents a more stable market than the large market economies, although the relative variability of Soviet imports of primary products,

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<sup>5</sup> *Ibid.*, p. 287. Of course, the dependence of the communist LDCs is much higher. Ninety percent of Cuba's exports are to other communist countries and 84 percent of its imports originate in that group. (CIA, *Handbook of Economic Statistics, 1985*, p. 107.)

<sup>6</sup> Egon Neuberger, "Is the USSR Superior to the West as a Market for Primary Products?," *Review of Economics and Statistics*, Vol. 46, 1964, pp. 287-293, and Philip Hanson, "The Size, Growth and Stability of the Soviet Market for Primary Products," *Jahrbuch der Wirtschaft Osteuropas*, Band 3, 1972, pp. 189-301.

<sup>7</sup> Wolf, "An Empirical Analysis of Soviet Economic Relations with Developing Countries," pp. 234-238.



which was statistically significant in the 1960s, has declined over the past two decades.<sup>8</sup>

There is some evidence that the Soviet Union price-discriminates among all developing countries (including the communist) in favor of the CMEA members (Cuba, Mongolia and Vietnam) and against the group of soft-currency (non-communist) LDCs. However, the result may reflect Moscow's bilateral economic bargaining power in relation with the soft-currency group rather than a conscious exercise of political muscle.<sup>9</sup>

Soviet trade with the LDCs will undoubtedly grow over the rest of the 1980s, in real terms; it never failed to do so before. However, there is little reason now to believe that the relative importance of third world trade to the USSR will change much, unless Soviet machinery becomes substantially more competitive, or Moscow finds that more of its import needs can be satisfied from LDC sources. Of course, the prospects of arms sales will exercise a major influence on the absolute and relative course of this trade. As already noted, falling oil prices may take some of the buoyancy out of LDC demand for Soviet arms, although the political instability of these countries and the balance of payments importance to the USSR of its arms sales guarantee fairly high levels of arms purchases over the longer term.

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<sup>8</sup> *Ibid.*, p. 238.

<sup>9</sup> *Ibid.*, pp. 238-246.

## V. ELEMENTS OF A BALANCE

Despite the thirty-year record of Soviet trade and aid and the voluminous literature on Moscow's activities in the third world, there does not appear to have been a Western effort to balance the costs and benefits. Obviously, that task cannot be attempted here, but it may be useful to try to outline the shape of the problem. When and if it is drawn, the balance will have to deal with three major elements--effects on the Soviet position in the third world and globally, the net benefit to the LDCs, and the net to the USSR.

*Enhancing the Soviet international political position.* The big breakthrough in the third world came in the mid-fifties. The political motive was virtually the sole *raison d'etre* of the Soviet arms and economic aid program through most of the Khrushchev decade and it achieved distinct results. The Western monopoly of influence was broken, a myth of Soviet identification with liberation from colonialism, political or economic, was propagated. No third world country joined the faith, apart from Cuba, whose enlistment preceded the receipt of major Soviet aid, but the tendency of most of the developing countries to find substantial overlap of international political interests with the USSR was born then.

The watchword of the new post-Khrushchev regime in relations with the LDCs was "mutual economic advantage." In its first decade, political influence was surely not scorned but it did not appear to be the driving force of policy, even though that continued to be publicly interpreted in terms of the conflict between the two world systems. Political gains were made in the third world, but there were substantial losses, especially of Egypt, and no spectacular new successes.

In the third decade, it was not economic aid or civil trade that wrought a difference in the USSR's position but arms transfers and the insertion of Soviet or proxy military forces directly into third world conflict. Of the changes in alignment effected in the second half of the seventies, none seems irreversible. Even Afghanistan, on the USSR's back doorstep and policed by 150,000 troops, appears to be a bone in the

Soviet throat. South Yemen has been wracked by factional strife and a brief but bloody civil war. Secessionist conflict continues in Ethiopia and Mozambique and has intensified in Angola. New opportunities opened in Central America in the early 1980s, but in El Salvador the rebel tide appears to be ebbing and the Sandinista's authority in Nicaragua is still under challenge; the Marxist episode in Grenada was terminated shortly after it began. The Kremlin probably views the self-proclaimed Marxist-Leninist recruits of the last decade as distinctly less reliable than its major LDC communist allies, Cuba and Vietnam.<sup>1</sup>

If the balance is drawn over the three decades as a whole, the change in the Soviet position is dramatic and significant. However, some of the largest gains arguably came at the inception of the campaign, and the net is considerably more difficult to estimate over the more recent periods. Military and economic aid did not automatically purchase political influence. Any expectations that Soviet penetration of the third world would inevitably bring about the contraction of the Western capitalist system were revealed as illusions.

Whatever the size of the net Soviet gain in the third world, Moscow paid a political price for its activism in another sphere of its global activity. Brzezinski declared that SALT II was buried in the sands of the Ogaden. Certainly, Soviet third-world activism in Africa and Asia was one of the important contributing factors to the sea-change in American public opinion during the mid-seventies on the reality and utility of U.S.-Soviet detente.

*Economic and political benefits/costs to the third world countries.* Such a cost benefit analysis goes far beyond the mandate of this paper, but perhaps three contradictory factors may be briefly cited. First, the entrance of the USSR onto the scene probably helped improve the scale and terms of Western aid to the LDCs. This was not just a one-shot result, but a long-term shift in the aid supply schedule. Second, the Soviet Union helped create and actively nurtured the self-assertiveness of the third world in the international arena. Moscow was not directly involved in the oil price revolution, but it does not seem

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<sup>1</sup> This does not mean that other and better opportunities for Soviet penetration may not appear tomorrow. Among current worries for the West are South Africa, the Philippines and Pakistan.

far-fetched to argue that the West would not have tolerated this extraordinary raid on its wealth, if not for the presence and active support of the USSR. In that sense, there is something to the Kremlin's claim that Soviet power is the guarantor of the independence of (some) LDCs, although it is highly doubtful that the Soviet Union would have intervened actively in the late 1960s and early 1970s to repel Western economic or military pressures. I leave to others to assess the net economic benefit to the non-oil producers of the transformation of the international system since the mid-fifties. But a third, related factor, seems to have been a net liability to the LDCs. Moscow did not invent the idea of import-substitution-driven industrialization via state discrimination in favor of the public sector, but the USSR's historical example, its active espousal and sustained economic support were powerful influences increasing the respectability and popularity of that dogma. There has been a great disillusionment on this score in the third world in the 1970s, supported by the increasingly vociferous critique by Western economists.<sup>2</sup> Even in the Soviet development literature, some similar notes can be heard.<sup>3</sup>

*Economic benefits and costs for the USSR.* Attention has been focused recently on the costs, but surely there have been gross benefits. (That dominated the considerations of observers twenty-five years ago.) Access to raw materials and food on favorable terms, outlets for otherwise unmarketable Soviet machinery, hard currency earnings badly needed for purchases of food and capital goods, reduction in the cost of producing Soviet machinery and arms, perhaps even some quality improvements in Soviet manufactures resulting from competition in the foreign markets--these are among the elements of at least a gross gain from economic relations with the LDCs.

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<sup>2</sup> For a brief, succinct summary of the basic arguments, see Deepak Lal, *The Poverty of 'Development Economics'*, Institute of Economic Affairs, London, 1983.

<sup>3</sup> Elizabeth Kridl Valkenier has followed the Soviet discussions carefully. See her *The Soviet Union and the Third World. An Economic Bind*, Praeger, New York, 1983, Chapters 2 and 3.

On the other side of the balance, Charles Wolf and associates have attempted to measure the "costs of the Soviet empire" (CSE) in the 1970s.<sup>4</sup> The empire includes Eastern Europe and other communist countries as well as the various parts of the world in which the USSR is contending for dominion. Most of the costs estimated by the group fall in the category of trade subsidies--in 1980, about 50 percent in current dollars and 65-70 percent in current rubles--and roughly 90 percent of the subsidies are accounted for by the implicit subsidies to Eastern Europe. Similarly, trade credits represent another 9-10 (ruble) or 14-19 (dollar) percent of total CSE in 1980, and Eastern Europe (including Yugoslavia) accounts for 53 percent of those. Military assistance and economic aid deliveries to LDCs (calculated, in principle, at opportunity cost but net of aid repayments and arms sales for hard currency) are estimated as totalling about \$5 billion in 1980. The sum of all costs estimated by the Wolf group that apply to the LDCs, communist and non-communist alike, is roughly \$13-15 billion.<sup>5</sup> There are probably estimating errors in both directions in the components of these totals,<sup>6</sup> but if we may take them as a rough indication of magnitude, the figures correspond to about 2 percent of Soviet GNP in 1980.<sup>7</sup>

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<sup>4</sup> Charles Wolf Jr., and others, *The Costs of the Soviet Empire*, R-3073/1-NA, The Rand Corporation, September 1983.

<sup>5</sup> The sum of \$1.99 billion of trade subsidies, \$2.84 billion of trade credits, \$7.14 billion of economic and military aid, \$.50-\$1.20 billion of incremental costs for Soviet forces in Afghanistan, and \$.74-\$1.93 billion for covert operations in LDCs (an arbitrary one-third of their total estimate).

<sup>6</sup> On the one hand, the figures do not include trade subsidies to Vietnam and Mongolia. On the other hand, the economic and military aid component may be too large, in view of Joan P. Zoeter's estimate that 90 percent of Soviet arms deliveries to LDCs in 1980 were for hard currency ("USSR: Hard Currency Trade and Payments," *Soviet Economy in the 1980's: Problems and Prospects, Part 2*, Joint Economic Committee, U.S. Congress, U.S. Government Printing Office, Washington, D.C., 1983, pp. 503-504); Table 1 indicates that deliveries in 1980 were over \$8 billion.

<sup>7</sup> Translating to rubles at the average ruble-dollar ratio implied by the Wolf group's total CSE estimates in rubles and dollars and dividing by their ruble estimate of GNP.

At first glance, this estimate of the relative cost of the Soviet involvement in the third world seems small. But it would be a mistake to dismiss the question of third world burden on these grounds. Apart from the possibility of underestimation in the figure cited, it must be viewed in the context of the USSR's well-known resource allocation stringencies. With slow growth, widespread shortage of consumer goods and services, inadequate and misdirected investment, the Soviet economy also supports a defense sector that accounts for every fifth or sixth ruble of national expenditure, and perhaps an even larger share when account is taken of other, indirect costs of the priority of military demands.<sup>8</sup> Even relatively small diversions of acutely scarce resources can have significant effect. The magnitude of the diversion, in addition, is partly obscured by relating it to GNP. In a longer time frame, all components of the national output may be regarded as substitutable in use, but the more direct and immediate tradeoffs in expenditure on the LDCs are within an aggregate much smaller than the GNP. Thus, the hard currency component of aid outlays on the third world compete with imports of goods and services from the West: every underpriced barrel of oil sold to Cuba, every tank sold on concessional terms to South Yeman, means a forgone purchase of Western technology or grain or other valued commodity. Even the soft currency aid of trade credits could involve the diversion of goods and services from useful employment within the USSR. These considerations are difficult to quantify, but if only half of the LDC outlays in 1980 estimated by the Wolf group involved expenditure of hard currency or opportunity costs in hard currency, the resulting sum is almost four times the Soviet hard currency current account surplus and twice as large as the identified Soviet hard currency inflow from all sources in that year.<sup>9</sup>

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<sup>8</sup> See A. S. Becker, *Sitting on Bayonets: The Soviet Defense Burden and the Slowdown of Soviet Defense Spending*, JRS-01, Rand/UCLA Center for the Study of Soviet International Behavior, Santa Monica, California, December 1985.

<sup>9</sup> CIA, *Handbook of Economic Statistics 1985*, p. 72.

There is ample evidence that Soviet leaders have been conscious of the fact of a burden imposed on the economy by the national military effort, although it is not clear whether they know the burden's true size. Similarly, they must also be aware of the economic drain from their involvement in the third world. Khrushchev's rash commitments of aid to Egypt and other countries were opposed by some of his Presidium colleagues and was possibly a factor in his dismissal. His successors altered the regional distribution of aid, probably because much of it appeared to be wasted on countries whose political allegiance proved ephemeral. Aid was doled out somewhat ungenerously in the late seventies and early eighties to some of the radical African clients who appeared to be favored in the mid-1970s. Again, it may be that cost-benefit balancing was involved in the decision. Andropov was cited earlier in a mood suggesting skepticism about the value of at least some Third World commitments.<sup>10</sup> Perhaps Gorbachev is similarly inclined. It may be that the very large levels of aid to Cuba, Vietnam and Mongolia should be treated at least in part as payment for services rendered in sub-Saharan Africa, on the Chinese borders, and in the South China Sea. One wonders, nevertheless, whether Moscow would not keep at arms length another Cuba appearing suddenly on the scene, ready to be embraced in the Soviet camp as a full-fledged Marxist-Leninist socialist state, but at an annual maintenance cost of another \$5 billion. This is not to argue that economics always and everywhere dominates politics in Soviet third world strategy, only that the logic of economic decisionmaking probably applies extensively to Soviet LDC policy: the rate of return required to undertake an investment project rises when capital resources become relatively scarcer.

Moscow demonstrates a tight-fisted concern about its purse in various international economic forums. It is still not a member of the World Bank group and makes only token contributions to UN aid organizations; it is not a member of GATT (the General Agreement on Tariffs and Trade) or IMF. The USSR has generally supported LDC demands for more aid from the West--for example, at the 1983 UN Conference on

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<sup>10</sup> See Note 12 in Section III.

Trade and Development, UNCTAD VI, in Belgrade, but even here there may be a change. At the July 1985 meeting of the International Cocoa Organization, the USSR bluntly warned the cocoa producers that Moscow would not agree to any arrangements on production or distribution that did not reduce prices; it firmly supported the tough line of Washington and London.<sup>11</sup>

Finally, there is the currently precarious state of LDC balances of payments. There does not seem to be any reason to believe that servicing the hard currency debt to the USSR should be exempt from the problems the LDCs are experiencing in earning sufficient net export proceeds to keep current on their obligations to the West. Soviet interest rates certainly do not include a risk premium adequate to cover the threat of partial or complete default. That Cuba is unconcerned about this problem is understandable: its debt to the Soviet Union has been restructured on apparently "highly favorable terms." It can pursue its campaign for concerted LDC repudiation of debt to the West, while rigorously assuring the foreign banks that Cuba will honor its own obligations.<sup>12</sup> But Moscow appears to support this campaign, at least for now.<sup>13</sup> Whether that will continue remains to be seen.

Of course, Soviet economic and military involvement in the third world is too deeply rooted to be in danger of a reversion to the status-quo-ante Khrushchev. Recent abrupt declines in oil prices will further constrain Soviet hard currency oil revenues, which are also limited by the stagnation of domestic production. Nevertheless, economic aid levels will probably continue to rise, if only because of the long-standing factors of LDC demand and Western competition. For reasons discussed earlier, Soviet arms sales will probably remain a significant

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<sup>11</sup> Steve Mufson, "Third World Pleas on Commodity Prices Get No Sympathy in Developed Nations," *Wall Street Journal*, October 2, 1985, p. 34.

<sup>12</sup> Roger Lowenstein, "Cuba Is In Good Standing With Bankers Despite Castro's Talk of Canceling Debt," *Wall Street Journal*, July 30, 1985, p. 34.

<sup>13</sup> *Izvestiia*, July 8 and August 1, 1985; A. Zhitnikov and G. Markov, "The West's 'Debt Trap' for Developing Countries," *International Affairs* (Moscow), No. 8, 1985, pp. 35-43.



factor in international relations and in the Soviet balance of payments. Trade with the developing countries will certainly grow, in nominal and real terms. Yet, if Moscow decides that domestic economic growth requires renewed large scale infusions of Western technology, the aggregate share of the third world in Soviet trade turnover may diminish.

The scale of Soviet economic involvement in the third world has grown markedly over the past three decades, but it has also been held back by Soviet resource stringency. In relative terms, the constraint appears to be felt more acutely in recent years than in the first half of this period. Unless Soviet economic prospects brighten considerably more than now seems likely, limited resources will probably continue to retard Soviet efforts in the third world. It is worth emphasizing, however, that economic difficulties, unless they are exacerbated considerably more than now seems likely, will not drive the USSR out of the third world. Soviet competition there will most likely endure for the indefinite future.