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Nov. 1964, Supplement, p. 96, in Russian). Allowance must also be made for the fact that such general indicators as the turnover of goods between the Soviet Union and an entire group of countries, which display vast differences between their levels of social and economic development, and also between

their individual home and foreign policies, must not be used but with the greatest caution, keeping in mind that their value is usually only an approximation or indicative of relative developments.

However, in spite of a number of difficulties, economic cooperation

between the Soviet Union and the countries of Asia, Africa, and Latin America has indubitably favourable development prospects, as all trade partners involved profit from it and as this cooperation meets the fundamental economic and political interests of all developing countries.

## Terms and Conditions of Eastern Aid

by Dr Edgar Kröller, Paris

During the past decade, the Communist countries have become a significant, though somewhat erratic source of development finance for the less-developed world. While denouncing Western aid as a "masked form of colonialism by the imperialist powers", the Soviet Union, its European Satellites and Red China have increasingly used their foreign assistance policy as a powerful tool to gain influence in the "tiers monde". It is noteworthy that the political propaganda effect resulting from East Bloc aid has been far greater than would be commensurate with the amounts involved.

### Commitments and Disbursements

This may be partly due to the confusion between aid "commitments" and "disbursements". Commitments refer to the firm obligation undertaken by a donor country to provide a certain amount of assistance at certain terms to a certain recipient country for a specified purpose. Disbursements, on the other hand, represent the actual international transfer of the financial resources. While there is always a certain time lag between commitments and disbursements, this time lag has been very large as far as East Bloc aid is concerned.

In recent years, all East Bloc countries taken together have disbursed about \$ 330 million annually as foreign assistance (net of repayments). Compared with a total aid flow—official and private—of about \$ 9 billion per year

by Western countries<sup>1</sup>, Eastern aid amounted to only 4 per cent of the Western volume.

In relative terms, the Western countries as a group have disbursed over the past years close to one per cent of their national income as external assistance, whereas aid by the Eastern countries has reached only about one-tenth of one per cent of their national income. On a per capita basis, the West may have spent five times as much as the East in the form of foreign aid.

It is somewhat surprising in this context that in spite of its limited absolute and relative assistance efforts, the East Bloc has never been seriously criticised by the developing countries at a time when the Western donors are under constant attack for their insufficient aid performance. It is not clear to what extent these different stand-

ards of judgement are motivated by the acceptance of the Communist thesis that the present misery of the developing countries is an integral part of their colonial heritage. According to this view, Western aid, especially by the former Metropolitan powers, is extended primarily in compensation for the economic exploitation of their dependencies in the past.

### The Soviet Aid Programme

The largest single East Bloc donor is, of course, the Soviet Union. It accounts for two-thirds of total East Bloc commitments in 1954 to 1965. Another quarter has been committed by the European Satellites: Czechoslovakia, Poland, Eastern Germany, Hungary and Roumania. The remaining tenth is the share of Red China.

Right from the start, the Soviet Union has attempted to identify the world Communist movement

<sup>1</sup> These are the countries which are Members of the Development Assistance Committee (DAC) of the OECD.

**Table 1**  
**Development Assistance by the East Bloc and DAC-Countries 1956—65**  
(\$ million)

Year	East Bloc		DAC Countries-Disbursements	
	Commitments	Disbursements	Official	Total
1956	608	100	3,289	6,261
1957	227	100	3,879	7,644
1958	556	200	4,419	7,315
1959	894	150	4,398	7,164
1960	1,165	200	4,937	8,097
1961	957	300	6,054	7,316
1962	507	400	5,990	8,577
1963	319	375	6,086	8,665
1964	1,527	375	5,871	9,180
1965	1,202	325	6,210	10,443

Note: Disbursements are net of repayments (Source: "The Flow of Financial Resources to Less-Developed Countries 1961—1965", OECD, 1967). East Bloc disbursements represent estimates.

with the national liberation efforts of the former colonial countries. Through intensive political and economic relations with the newly independent nations, it has tried to penetrate their political structures and economies in order to reduce Western influence.

The initial phase of Soviet aid to the developing countries was the period from 1955 to 1957 when the Soviet Union took advantage of the wave of neutralism which had emanated from the Bandung Conference. It sought to manipulate this spirit of unrest by offering financial help to virtually all of the less-developed countries. Three-quarters of Soviet commitments in this period went to Asia, the remaining quarter to the Middle East.

The years 1958 to 1961 witnessed a significant expansion of Soviet aid which was now concentrated on a systematic support of the development plans of a number of countries, notably Afghanistan, India, Indonesia, Iraq, and Egypt. About one-half of total Soviet commitments during this period was extended to Asia, 30 per cent to the Middle East, and the remainder to gain access in Africa where agreements were signed with Ethiopia, Ghana, Guinea, Mali, Sudan, Somalia and Tunisia. From 1961 to 1963, the Soviet aid programme declined drastically, mainly as a reaction to the previous abnormally high level of commitments and as a result of delays in disbursements.

In 1964, on the other hand, Soviet aid rose to a new record level with

commitments of close to \$ 1 billion. This expansion was prompted by the increased competition by Red China in gaining influence in the less-developed countries. Two-thirds of this aid were earmarked for India and Egypt and a fifth for several African countries. Aid commitments in 1965, after Krushchev's fall, remained high but the style of the assistance programme became more cautious. There was increased emphasis on project-orientated aid extended on the basis of thorough pre-investment surveys and feasibility studies. Moreover, aid shifted to countries with relatively stable governments, notably those in the Western sphere of influence: 85 per cent of the 1965 commitments went to Iran, Pakistan and Turkey whereas not a single credit was extended to African countries.

#### Aid Disbursements

The above described development of aid commitments reflects the Soviet assistance policy during this period. Aid disbursements, on the other hand, have been largely a function of the absorptive capacity in the various recipient countries. In contrast to the sharp fluctuations in commitments, disbursements showed a steadily rising trend. Up to 1965, total Soviet disbursements amounted to about \$ 2 billion, i.e. less than half of the \$ 5 billion committed during this period. Three-fourths of total disbursements were concentrated on three countries: Afghanistan, India and Egypt. The fact that the other recipients of Soviet aid account for

50 per cent of total commitments but for only 25 per cent of total disbursements reflects their limited capacity to productively absorb external capital, due to both their primitive economic structures and political unrest.

While Western aid is spread over more than 100 countries, East Bloc aid is concentrated on some 30 countries. Table 2 shows for the 10 major recipients of East Bloc aid cumulative commitments and disbursements, together with comparative figures relating to Western assistance.

About 70 per cent of Soviet aid financed industrial projects and geological prospecting in less-developed countries. Seven per cent was devoted to agriculture, 9 per cent to transport and communications, 4 per cent to education and health, and the remainder to other sectors.

Industrial projects include the Bhilai and Bokaro steel plants in India (with a combined capacity of 2.5 million tons of steel) as well as smaller-sized steel plants in Egypt (Helwan), Algeria (Annaba), Ceylon and Iran. As to power projects, the most noteworthy one is the Aswan High Dam with a 2.1 million Kw hydropower station; smaller power stations were also financed in India and Cambodia. Machine building plants include the Ranchi and Durgapur projects with an annual capacity of 80,000 and 45,000 tons, respectively, of heavy machine and coal-mining machinery products.

Geological prospecting has been aided in Algeria (copper, lead, zinc), Afghanistan (oil, gas, various hard minerals), Guinea (diamonds, gold), India (oil, gas), Iraq (sulphur, phosphate), Yemen (water), Congo-Brazzaville (phosphate, copper, zinc, and lead), Mali (gypsum), Egypt (iron, manganese, coal, oil), Pakistan (oil, gas), and Syria (oil and other minerals).

Aid to agriculture includes irrigation projects in Algeria, Afghanistan and some other countries as well as miscellaneous undertakings, including grain storage facilities, multi-purpose state farms and agricultural extension services.

**Table 2**  
**Bilateral Commitments and Disbursements to Selected Recipient Countries**  
( \$ million)

Recipient Countries	Commitments 1954-65		Gross Official Disbursements	
	USSR	East Bloc	East Bloc 1954-65 <sup>1</sup>	DAC Countries 1960-65
Egypt	1,011	1,664	520	1,059
India	1,022	1,299	630	5,409
Indonesia	372	740	315	637
Afghanistan	552	587	340	208
Iran	330	376	25	339
Algeria	230	302	40	1,870
Syria	150	251	120	44
Iraq	184	218	115	28
Turkey	210	218	10	1,002
Ghana	89	231	85	94

<sup>1</sup> These are rough estimates which excluded Red China whose cumulative disbursements are estimated at \$ 150 million.

Transport and communications projects which are assisted by Soviet resources include the 500 Km long railway from Baghdad to Basra in Iraq, the 750 Km long railroad from Kamyshla to Port Latakia in Syria, two railroads in Afghanistan, port construction in the Yemen and in Somalia and motor highways in Indonesia, Nepal and the Yemen. Aid to education in the less-developed countries was extended for an oil institute and a textile school in Algeria, a polytechnical school in Afghanistan, as well as for technical schools in Burma, Cambodia, Guinea, India, Indonesia, Tunisia, Ethiopia, Mali and the Yemen.

### Terms and Conditions

The terms and conditions of Soviet aid are considerably harder than those of Western public assistance. The Soviet Union extends almost exclusively fully tied credits at 2.5 per cent interest with a 12 year maturity. Repayment starts when the aided project is completed. Public assistance of Western donors, on the other hand, consists to 60 per cent of grants; the remaining loans carry at an average 3 per cent interest and a repayment period of 25 years, including 7 years grace. About two-thirds of total public assistance is tied to purchases in the respective donor country. The terms of private flows by Western countries—notably export credits—, on the other hand, are considerably harder.

Another way to compare the different terms and conditions of assistance by the East and the West is to use the "discounted present value" method. This method expresses the stream of repayments to be received from a loan in terms of the amount of capital which would yield the same repayments if invested at an appropriate comparative discount rate. The difference between this capital sum and the face value of the loan is the "grant element", which can be expressed as a percentage of the face value of the loan. The "grant element" hence represents the sacrifice involved in lending money on the terms of the loan rather than using it for some other purpose. This

method has the advantage that it can express the hardness or softness of individual loans, or a whole loan programme, in terms of a single parameter.

A major conceptual difficulty in applying the method concerns the choice of the discount rate for the alternative use of the capital by the donor country—whether to select the same discount rate for all countries or different rates for the various countries to reflect differences in their capital productivity. Another problem is that this method can for practical purposes be applied only to official flows since no reliable data exist on the prospective repayment streams of private investment.

Applying the discounted present value method to Soviet loans (2.5 per cent interest, 12 years maturity, plus 3 years grace) and using a discount rate of 10 per cent, this would give a grant element of 40 per cent. This compares with an average grant element of 80 per cent of the official assistance of Western countries (e.g. in 1965: 81 per cent for the United States, 87 per cent for France, 75 per cent for the United Kingdom and 62 per cent for Germany), using the same discount rate of 10 per cent.

Another difference in the conditions of aid extended by the East and by the West is that the East accepts repayment in goods while the West insists on cash. While the arrangement with Eastern donors can be of significant benefit to certain recipient countries, part of it may be offset by lower than world market prices set for the goods accepted in repayment and higher than Western prices (for goods of comparable quality) fixed for the goods financed by Soviet aid.

### Multilateral Assistance

Due to its relatively hard terms, Soviet assistance—despite the modest amounts involved—has increasingly contributed to the indebtedness problem of the less-developed countries. The Soviet Union, along with Western donors, has, therefore, been approached by

a number of less-developed countries with the request for debt consolidations and for easier terms. Western countries, moreover, have a vital interest to prevent certain less-developed countries from aggravating their indebtedness positions by accepting an unduly large share of hard Soviet credits at a time when softer Western aid is extended to ease their debt situation. Otherwise, Western capital might be used to repay Eastern loans.

The Soviet share in multilateral assistance to less-developed countries is negligible. The Soviet Union is not a member of the World Bank. It makes small contributions to the Technical Assistance Programme of the United Nations. At present, there are about 150 Soviet experts working in the field under UN auspices.

As special case in the Soviet programme concerns Cuba. The figures so far mentioned include only purely economic aid to the island: cumulative commitments of about \$ 400 million and disbursements of \$ 100 million up to 1965. In addition, however, there has been a growing short-term balance of payments deficit of Cuba with the Soviet Union (and other Eastern donors) which is believed to exceed \$ 1 billion. Cuba is also the recipient of large Soviet technical assistance to various economic sectors. This involves about 2,500 Soviet technicians working in Cuba and several thousand fellowships for Cuban students at Soviet universities.

### Aid by the European Satellites

Development aid by the European Communist countries started later than Soviet assistance, but has rapidly increased in recent years. Up to 1965 these countries reached a total cumulative commitment figure of \$ 1,870 million, of which \$ 600 million have been disbursed. Czechoslovakia accounts for one-third of total commitments, Poland for almost one-quarter, Eastern Germany for 18 per cent, Hungary and Roumania for about 12 per cent each.

The terms and conditions of this aid, previously harder than those of Soviet assistance, have meanwhile become virtually the same as those applied by the Soviet Union. The geographical pattern of Eastern European aid is also similar to that of Soviet assistance. Principal recipients (in brackets cumulative commitments up to 1965) include Egypt (\$ 568 million), India and Indonesia (about \$ 270 million each) as well as Brazil (\$ 184 million).

For Eastern Germany, external assistance has become an important tool to gain diplomatic recognition in the third world. In 1965, commitments amounted to \$ 200 million, i.e. more than during all the previous years together. Major recipients include Egypt and Syria.

#### **Aid by Red China**

Up to 1965, Red China has committed aid of about \$ 900 million, of which \$ 340 million alone in 1964. Total cumulative disbursements are estimated at \$ 150 million. In and after 1965, there was a sharp drop in the Chinese aid programme, due to both internal economic difficulties and a series of setbacks in foreign policy—notably in the diplomatic relations with Indonesia and a number of African countries.

Major recipients of Chinese commitments up to 1965 include Indonesia (\$ 105 million); Egypt and Burma (\$ 85 million each); Pakistan (\$ 60 million); Algeria (\$ 60 million); Ghana, Tanzania, Cambodia, Ceylon, Nepal, Yemen (\$ 40-50 million each).

Aid by Red China is extended at considerably softer terms than Soviet aid. The bulk consists of grants and interest-free loans. Aid is concentrated on immediately productive projects, such as textile, cement, sugar and paper factories, as well as maller infrastructural projects.

#### **Technical Assistance by the East Bloc**

Eastern donors—like Western assistance providers have early recognised the crucial role of tech-

nical assistance in furthering economic growth in the developing countries where scarcity of local skills constitutes one of the crucial bottlenecks. Technical assistance takes two forms: the extension of experts and technicians to developing countries and the provision of fellowships for students and trainees from developing countries.

At present, there are about 18,000 East Bloc experts and technicians working in less-developed countries including 10,000 from the Soviet Union. This compares with about 110,000 experts and technicians provided by the West under bilateral arrangements alone. Regarding fellowships for students and trainees, there are at present approximately 20,000 persons receiving training in East Bloc countries (more than half in the Soviet Union) while about 70,000 persons take advantage of fellowships in the Western countries. As to terms there is an important difference between technical assistance from the West and the East: Western aid is extended as grants while the East treats technical assistance in the same way as any other kind of aid, i.e. on a credit basis. This has involved a heavy financial burden for those recipient countries on which Eastern technical assistance is concentrated.

#### **Conclusions**

East Bloc aid (like Western assistance) has been marked by a mixture of failures and successes.

An unquestionable success (in the Communist sense) is the fact that the Soviet Union—and the other East Bloc donors—have firmly established their presence in a number of important less-developed countries. They have improved their image and prestige and have undermined the former Western monopoly. Moreover, in the countries on which East Bloc aid is concentrated, Eastern donors have succeeded in influencing the structure and direction of their economic development, notably by strengthening their state sector, at the expense of private enterprise, and by diminishing their traditional ties with the West. The Soviet Union has also

succeeded in inducing several less-developed countries to cause both economic and political damage to Western powers. A case in point was Soviet support for Nasser to nationalise the Suez Canal and to expropriate the private entrepreneurs, both domestic and foreign.

In general, Eastern donors face in the developing countries the same obstacles and constraints as Western assistance providers. These are problems which are inherent in their present state of underdevelopment: a socio-cultural base which is not success-oriented but rooted in a traditional form of life; a lack of local skills and technology; disorder and corruption. The East does not possess the magic key to overcome these problems efficiently any more than does the West.

In several developing countries, the initial enthusiasm caused by spectacular East Bloc aid offers, gave way to irritation and disillusion in view of the slow and bureaucratic way in which the projects were implemented. In the technical assistance field, too, severe frictions occurred. Some of the developing countries felt that there was an unnecessary accumulation of expensive Soviet experts. Students of less-developed countries in the Soviet Union and Eastern Europe, on the other hand, complained about racial discrimination, excessive indoctrination and insufficient financial support.

Although there is a widespread pro-socialist tendency in the less-developed world, those countries seek their own way towards some sort of enlightened socialism and do not wish to lose their recently gained national identity through absorption by international communism. Moreover, the majority of the developing countries, rather than indulging in state-socialist experiments, prefer increasingly to follow a steady path to development, which relies on the initiative of the people, guided by a development programme which is conducive to the mobilisation of domestic resources, attracts foreign capital and assures the efficient use of both.