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Development Aid from the CMEA Countries and the People's Republic of China

by Heinrich Machowski, Siegfried Schultz, Berlin*

At UNCTAD V not only the Western industrialised countries but also the socialist states were heavily criticised for not appropriating sufficient funds for development aid. The following article presents a survey of volume, conditions, and regional distribution of the CMEA countries' and the PR China's aid on the basis of recent estimates.

In the European CMEA countries and the People's Republic of China, fragmentary information only is given on volume, forms, conditions, motives and regional distribution of eastern economic aid to Third World countries. Essentially, only western estimates of this aid are available. These estimates are unavoidably subject to an element of error (inaccurate division of commitments, disbursements and net transfers; woolly definition of commercial credit and military aid). According to American estimates¹ – these are still the most complete and up-to-date ones released – credit commitments in 1977 (more recent figures are available for individual projects only) amounted to just under US \$ 900 mn (see Table 1). Thus, the downward trend, which had already been indicated before, has intensified drastically: a decrease to less than one-half of the previous year's level.

Particularly the heavy drop in the Soviet aid program (Chinese aid on the other hand increased slightly) has led to this figure being the lowest for nearly 10 years. However, this should not be misinterpreted: considerable yearly fluctuations have in a way always been a characteristic of eastern development aid. That is why the present development should not be regarded as an indication of a changed political attitude towards the Third World, but rather as a reflection of essentially two things:

□ The identification of new (typically big) projects does not take place continuously and the agreements on economic and technical cooperation only lead to concrete projects in the course of time; moreover this specification which only appears later by realizing

individual projects and supplies is the reason for corrections of credit amounts in the order of US \$ 300-400 mn for the preceding years, to which they were later added.

□ Furthermore, there are also elements of aid in the trade between the CMEA countries and the Third World (e.g. Soviet oil in exchange for Indian rice).

The regional distribution of new commitments (see Table 2) in 1977 followed the pattern which has existed for many years: There was a concentration of Soviet credits in the Near East and South Asia. In this connection a new credit to the amount of US \$ 340 mn granted to India is particularly worth mentioning; the first new commitment with a stock of nearly US \$ 0.5 bn of unused credits from old agreements. The liberal conditions are also noteworthy; repayment within a period of up to 20 years and interest at the rate of 2.5 % annually clearly contrast with the CMEA countries' usual credit terms. (As a rule, standard credits at government level run over a period of 10 years with an interest rate of 4-5 % per annum; the repayment begins one year after completion of the project.) The credits to Iran and Iraq, which obviously serve as a market for machines and equipment, bear more of a commercial element. In the main new commitments to the Near and Middle East countries by the remaining CMEA countries are to be seen in the context of future crude oil demand. East Europe's new pledges are, on the whole, regionally more widely dispersed: in addition to their regular consideration of Africa, they are traditionally engaged in Latin America. In contrast to this, Chinese aid is clearly directed to Africa. Taking all of the socialist countries into account, regional concentration has somewhat weakened: The group of the 12 most considered developing countries

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¹ US-National Foreign Assessment Center, Handbook of Economic Statistics 1978, ER 78-10365, October 1978.

received 60 % of all credit commitments given until now under the eastern development aid scheme (see Table 3).

Table 1
Credit Commitments of Socialist Countries to Third World Countries (in US \$ mn, current prices and exchange rates)

Year	Donor Country			Total
	USSR	CMEA (except USSR)	PR China	
1954-1970	6,718	2,983	1,823	11,524
1971	1,126	484	562	2,172
1972	654	915	607	2,176
1973	709	587	574	1,870
1974	816	893	282	1,991
1975	1,572	511	348	2,431
1976	945	721	137	1,803
1977	392	326	157	875
1954-1977	12,932	7,420	4,490	24,842

Table 2
Regional Distribution of Economic Aid from Socialist Countries to Developing Countries outside Europe (Sum of credit commitments = 100)

Donor Country	Year	Region				
		Near East, South Asia	East Asia	Africa	Latin America	Other
USSR	1954-1977	73	1	14	8	4
	1976	26	—	39	—	35
	1977	87	—	5	8	—
CMEA (excl. USSR)	1954-1977	53	5	20	18	4
	1976	36	1	24	21	18
	1977	32	—	38	24	6
PR China	1954-1977	33	8	52	3	4
	1976	20	—	51	1	28
	1977	32	—	43	—	25
Socialist Countries, Total	1954-1977	60	3	23	10	4
	1976	30	—	34	9	27
	1977	57	—	24	12	7

Table 3
Recipients of more than US \$ 500 mn from Socialist Countries during the Period 1954-1977

Rank	Recipient Country	Commitments in US \$ mn
1.	India	2,738
2.	Egypt	2,464
3.	Iran	1,490
4.	Turkey	1,410
5.	Syria	1,382
6.	Afghanistan	1,379
7.	Pakistan	1,349
8.	Algeria	1,332
9.	Iraq	1,192
10.	Bangladesh	524
11.	Argentina	512
12.	Brazil	508

As in the case of commitments, there are also few official figures available on disbursements, i.e. the proportion of aid which has actually been claimed. It has been estimated that the extent to which credits have been drawn (gross disbursements as proportion of commitments) in the year 1977 was especially high. For China as well as for the smaller CMEA countries and particularly for the Soviet Union gross disbursements were higher than new commitments in this year. In 1977, the USSR supplied machines and equipment within the scope of technical aid to a value equal to US \$ 755 mn. According to statements from the Ministry of Foreign Trade the USSR on the other hand received in the same year goods to the value of about US \$ 800 mn from its credited production units in the Third World. This means the repayment of credit exceeded the new supplies.

There are various motives behind eastern development aid just as there are behind western development aid: Apart from purely humanitarian reasons, China's main motives are related to foreign policy and ideology, while for the Soviet Union and the other East European countries, economic reasons take precedence, indeed more so than ever before. This is a question of the market for domestic products as well as the importing of raw materials.

Characteristics common to all eastern development assistance are (apart from low contributions to UNICEF and UNDP) the almost exclusively bilateral relations, a small fraction of grants, concentration on the public sector and the tying of aid not only with respect to certain projects but also to procurement and experts from the donor country. On the other hand, the possibility of credit redemption by products from the credited production lines or by supplies of traditional export goods is of particular interest to developing countries.

In the future it will become increasingly more difficult in the world public, especially in the UNCTAD forum, for socialist countries to reject the demands of the Third World for an increase in foreign aid by using in a stereotype way the argument that they are not responsible for the economic consequences of colonialism. Furthermore, in discussions about a new international economic order this group of countries will not be able to gain long lasting standing by blaming the western industrial nations. Through a considerably increased number of new cooperation agreements concluded recently, by which credits will be made available over longer periods and on more comfortable terms, the socialist countries obviously want to counteract their loss of creditability in international panels.