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Soviet Trade and Foreign Aid to Developing Countries

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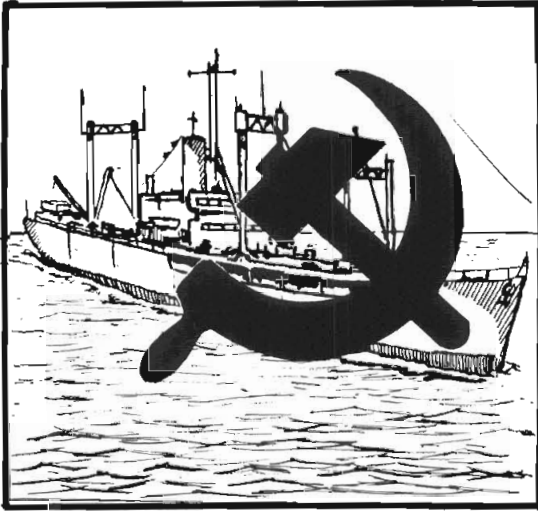
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**SOVIET TRADE
AND
FOREIGN AID
TO
DEVELOPING
COUNTRIES**
by
**Professor
Marshall I. Goldman**

**A lecture delivered at the
Naval War College
on 17 October 1967**

What I'd like to do today is talk to you about Soviet foreign aid. I think there are many things we can learn from it including something about our own aid policy. If we try, we can divide Soviet foreign aid into four or five different periods. In a sense, it is like a college love affair, or, depending on how old you are, a teenager's love affair. It's kind of off and on. The Russians get very excited; then they become very depressed. Their aid rouses deep passions in both those who are participating and those who are standing by as bystanders. The first stage of excitement runs from about 1954 till late 1961; then depression prevails from 1961 to late 1963; excitement again from about 1963 to 1965; and then after 1965 to the present day there is a little of both excitement and depression.

These periods, I hope, should tell us something about the success of Soviet foreign aid; the problems that foreign aid engender; and the international competition which has developed between the United States and the Soviet

Union and now China. Finally, perhaps, there might be some lessons to be learned for the future in all of this.

Well, let's begin in the early and middle years of the 1950's. Normally, I talk to students and people who have such short memories that it is very hard to recall for them the scare that Soviet foreign aid generated, at least in me, at that time. It seemed for a long period that no matter what the Russians did they topped their previous performance, and every day it looked like they were going into new countries, scoring new successes, and all the while it seemed as if our foreign aid policies were having troubles. So it's hard to recall that, especially about 1957, wherever they went they would make a challenge to either the United States, to England, to France, whatever country it might be. Furthermore, their projects were large and very imaginative.

As an indication of how well they have done, ask yourself if you can name a Russian aid project — a foreign aid project the Russians have

given? I'm sure that at least the Aswan Dam comes to mind. For those of you who have been stationed overseas it is probably very easy to mention several. But those of us who are more provincial and haven't gone off into other areas and neutralist countries could still mention one or two. So, most all of us know of the Aswan Dam, maybe the Bhilai steel mill or, in the more exotic areas, the highways they have built in Afghanistan or the Bokaro steel mill in India. The Aswan Dam made the front cover of *Life* magazine — and of course everybody knows about it now. But let me ask you a second question — this may point out some of the problems that are involved (those of you who have been overseas as military attaches don't count again). Can you name an American aid project?

I think this illustrates the difficulties that we have had. There are American aid projects that are big and impressive, but few of us know of them. That's my point. The highlight, the drama, seems to belong to the Russians. The Russians always seem to jump in whenever there is trouble. We threaten Nasser in Egypt and the Russians say, "Okay; we'll come in and build the Aswan Dam." They go into India and they pick up one of the important steel mills while the English and the West Germans are sitting back saying, "Well, we don't know whether we can do it." In the meantime the Russians build the Bhilai steel mills. We say we are not going to build a steel mill in Bokaro; the Russians come in and say they will pick it up. The French bomb Bizerte in Tunisia; the Russians come in right away and say, "We will give you foreign aid." We refuse to help the Burmese as much as they would like, and the market for rice in Burma falls. The Russians say they will come in and buy it. The market for cotton falls; they buy it. The market for sugar col-

lapses in Cuba; they come in and buy it. Now they have all that sugar, so they decide to buy coffee from Brazil. The fact remains, however that they have a remarkable sense of timing.

Furthermore, they create good public relations with these projects. One of the reasons we know about the Aswan Dam is that at the opening of the Aswan Dam, Khrushchev was there. (Figure 1.) The leaders were visiting their projects. Kosygin has been at these things; Brezhnev has not been far behind. Can you think of one American President or Vice-President who has ever gone to an American aid project for the opening? The projects are out in the boondocks. It is very natural, who wants to go out into the boondocks? But the Russians do. Actually, Kennedy visited some. He helped open a housing project in Latin America. But, for the most part, if our Presidents or our Vice-Presidents go to Latin America, or wherever it might be, they go to the central city and tend to stay there, and they don't go back into the hinterlands. Vice-President Humphrey came close to it during his recent trip to Ghana. He got in a plane and flew over our showpiece, the Volta Dam, which is an hour's ride from the capital. That was better than nothing. But I am suggesting that this lack of attention and emphasis by our senior Government officials is at least a partial reason why our aid projects seem to lack attention and why the Russians seem to have been so successful.

Well, in the late 1950's projected Soviet aid seemed to be growing in ever-increasing size and scale. By about 1960 new offers were being made at a rate of about a billion dollars a year. This was in promises, however, not actual deliveries. On the trade side it looked as if they could do whatever they wanted to do; their warehouses seemed to have no walls. Whenever



Fig. 1 — Shows the Aswan Dam when the blast was set off that diverted the Nile River.

there were commodities that nobody else in the world wanted, or seemed to want, the Russians were there and were buying them up.

In the general context of the time, of course, all of this appeared to be very depressing. In the late 1950's Sputnik was announced, and there was near hysteria in this country. Khrushchev was making promises for 1970 and 1980 about what communism would be, while we were in the period of semirecession. Similarly, along with the monolith of Eastern Europe, there appeared to be the monolith of China and Russia. It was a time to be neurotic and depressed in this country, and there really wasn't very much to look forward to.

Thus, in that first period, Soviet foreign aid seemed to have come at a very opportune time. Moreover, it did seem to accomplish something for the Russians. It made neutralism possible.

There was now someone to appeal to other than Western Europe and the United States. This made it possible for countries like India to thumb their noses at the United States if they wanted to. It made it possible for such countries to be independent and neutralist.

If you look at Figure 2 you'll see that, in fact, in many areas the Soviet Union did give more aid and was much more helpful than we were. Take countries like Afghanistan, Algeria, Iraq, Mali, and Syria. Also note, by the way, the large quantity of aid that the United States has given for food. This means the amount of industrial economic aid would be that much less. You can also see that the Russians sometimes give grants along the side. It is also interesting to note that, despite the disruption of the Cultural Revolution, the Chinese have recently offered to provide a loan for a \$280

Fig. 2 – United States, China, and U.S.S.R. Economic Aid Commitments, 1946-66*
(Millions of Dollars)

	TOTAL	U.S. FOOD FOR PEACE	CHINA	U.S.S.R. LOANS	GRANTS
Afghanistan	343	112	28	377	150
Algeria	180	176	55-60	228	
Argentina	665	18	---	100	
Brazil	2,989	706	---	100	
Burma	101	36	84-88	10-15	
Cambodia	254	3	55-60	12	6
Cameroon	27	---	---	4	
Ceylon	102	72	31-41	30	
Congo-Brazzaville	2	---	25	9	
Ethiopia	208	28	---	100	2
Ghana	176	14	42	82	
Guinea	75	28	32	61-85	
India	6,769	3,327	---	1,366	
Indonesia	771	263	100-108	367-375	
Iran	856	123	---	225	
Iraq	56	24	---	183	
Kenya	57	31	18-28	3	
Laos	473	4	7	4	
Mali	16	2	20	61	
Morocco	548	225	---	42	
Nepal	98	53	43-71	3	11
Pakistan	3,072	1,112	130	160-180	
Senegal	19	6	---	7	
Somali	52	7	23	52	
Sudan	107	21	---	22	
Syria	73	53	16-20	237	
Tanzania	50	21	333	42	
Tunisia	468	213	---	29	
Turkey	2,278	441	---	168-178	
UAR	1,133	902	85	821	
Uganda	21	2	15	16	
Uruguay	82	28	---	20	
Yemen	42	10	44-49	92	
Zambia	36	---	.5	---	
TOTAL	22,199	8,061	1,179-1,258	5,033-5,100	169

*Figures for U.S.A. to mid-1966; for China and U.S.S.R. to mid-1967.

million railroad for Tanzania and Zambia. It is important to remember, however, that the figures for China and the Soviet Union are promises. Actual deliveries amount to about a third of that. In contrast, the figures for the United States are for actual delivery. But still you can compare the countries where the Russians have actually outgiven the United States.

Yet, just when they seemed to be having nothing but bigger and bigger successes, the Russians suddenly seemed to cut back. From late 1961 until 1963, the second period that I outlined, their promises of new aid fell to almost nothing. Why? There are a variety of reasons that I would like to suggest.

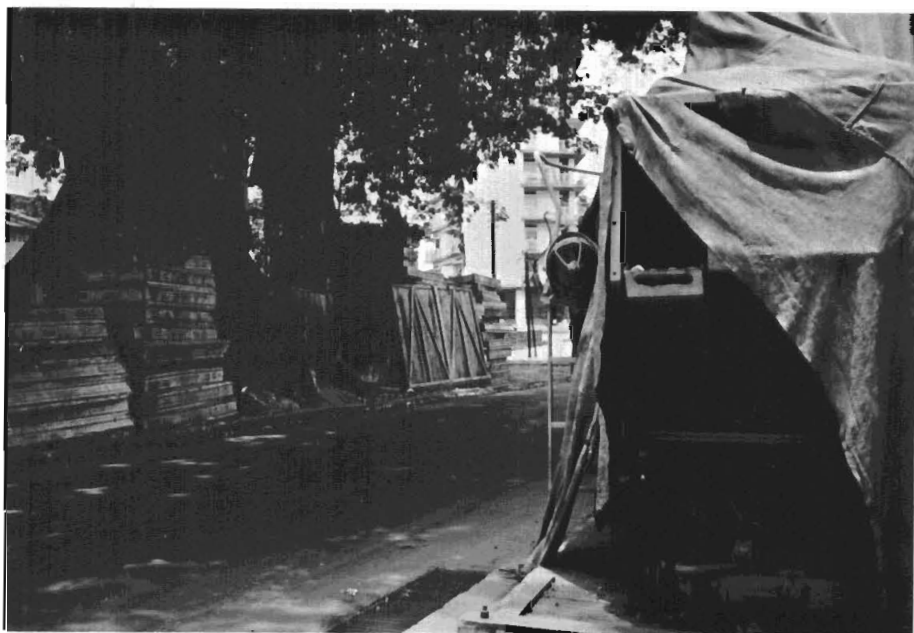
First of all, eventually it came time to fulfill the promises. It was one thing to promise, another thing to deliver. It was expensive, and this began to eat into some of their economic activity at home. Furthermore, they began to discover that there were problems with foreign aid — problems that we had had for years. They suddenly discovered that such difficulties were not unique to the United States.

For example, most of the neutralist countries tend to be in the tropical belt, and these are tough places to work. Either it rains, or it's hot, or it's dry. Whatever happens, it is generally unpleasant a good portion of the year. Furthermore, there is no such thing as the Yellow Pages in the phone book which you can pick up to call carpenters or electricians when you need them. Most of the people are untrained. Sub-contracting is virtually unknown or, if it does exist, it is usually very primitive. Now I am making generalizations, of course, and you can find exceptions, but generally this tends to be the case. Almost everything that requires any sophistication must be brought in from the outside.

Furthermore, the political leaders

that they are dealing with are essentially an unstable lot. I like to call them the "go-go" generation of revolutionary leaders. They have usually come to power by means of a revolution, and revolutionaries like excitement. It's much easier to stand up and say, "Crush Malaysia; crush Israel; crush Guinea; crush Tunisia," instead of "crush fertilizer." You don't get many votes for crushing fertilizer. Furthermore, if you have to increase taxes to build the fertilizer plant, you are apt to be thrown out, because this is a burden that people do not always seem to appreciate. The Russians back these leaders. Then they are stuck with them. Now what do you do once these people are in power? Well, the Russians began to find that some of these revolutionaries were fickle and very hard to deal with.

Similarly, the Russian planning system does not always do the best in terms of its efficiency at home. As we have discovered, the Soviet economy has more than its share of economic ills. If planning is difficult to arrange within the Soviet Union, then it's going to be that much more difficult to arrange outside the country. For one thing, foreign aid is at the mercy of the merchant marine, and the Russians, until recently anyway, have had a weak merchant marine. You have to rely on ships, and when a ship is going to Guinea, or is going to Indonesia, you put your equipment on that ship, regardless of whether it's a year in advance or two years in advance. Consequently, goods will often be shipped simply when the boat is going. Figure 3 is an example of some of the merchandise in Guinea which is simply piled on the docks and left to sit in the sun. Whether it sits in the sun or sits in the rain, it deteriorates. Moreover, people pick up samples as they go along, and there is a very high pilfer-



**Fig. 3 — A scene from the docks of Conakry, Guinea
showing the rusting Russian equipment.**

age rate. Generally, the Russians have avoided the problem of embezzlement because they deliver goods instead of money. But if the goods are stolen, the effect is the same. This was an especially serious problem in Indonesia. Poor delivery and theft have been a source of great frustration to the Russians. They were building a steel mill in Indonesia, and they sent a big 60-ton stand, but they sent it a few years in advance. Furthermore, the steel mill was about 3 years behind schedule. It has simply been sitting there even though it's hard to imagine what one could do to a 60-ton stand. But the Indonesians did their best. The project was not completed despite the allocation of millions of dollars worth of equipment. This upset the whole country and also upset the Russians. One of the reasons that Mikoyan went to Indonesia in 1964 was expressly to com-
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plain about the inability to work these things out.

The Russians also found after a time that some of their projects had been built on too large a scale. Until recently anyway, they had no hesitation about the scale of what they were doing. You know, if you study economics, that the interest rate, whatever ideological controversies it might create, serves an economic function. It rations capital equipment, and this is necessary because capital is scarce. If capital equipment is free — in other words, if there is no interest rate — then you pass it out as if it were a free good, and if it is a free good you tend to have very big projects. But if there is a limit to how much capital there is, after a while you run out of capital. We know that capital is scarce, and so we build small projects and are criticized for it. In contrast, the Russians

have built very grandiose projects. But the big things did not provide a return that was adequate, and many of their projects began to lose money. This is now changing because Liberman and his new reforms are stressing that private capital is scarce and that there is an interest rate. So it is conceivable that the Russians will soon start insisting on more limited and reasonable projects, but previously there was no such restraint.

The absence of the interest rate restraint helps to explain why they could build the Aswan Dam. Furthermore, there have been many nonsense projects. They built stadiums and hotels. Stadiums and hotels are very nice. But with the exception, perhaps, of some hotels, such projects do not earn anything to pay back the loans. If they sit there idle, as the hotel in Guinea shown in Figure 4, the Russians are not going to have much luck in obtaining repayment.

Also, they make very poor feasibility studies. You have heard the same criticism about the United States — we went out and built things that we should not have. The Russians have done the same thing. Figure 5 shows a picture of a dam that they built in Nepal. The bed of the river at the beginning of the monsoon, when the picture was taken, is as wide as this auditorium — yet it is considered to be a major project. In the monsoon you have three generators working. The monsoon, after all, comes only at certain times of the year — another four months of the year you have two generators working, and in the dry season only one generator working. It's incredible. Such a project does not really seem to be the best expenditure of funds. They planned to build a super phosphate plant in Indonesia. When it was actually under construction, they discovered there was no phosphate and

no sulphur. One of my friends in Indonesia said it was like having a hamburger without the bun and the meat. They built a radio station in Guinea on a hill overlooking the city. It was very well located because it was high above the whole area, but it turned out the hill was very rich in iron ore and therefore was very poor in radio transmission.

It almost seems as if I am describing our foreign aid program — and unfortunately, we have done such things — but the Russians have a genius for making exactly the same kind of mistake.

When you get into agriculture it's inevitably bad because the Russians have enough trouble with their agriculture at home. To me, one of the happiest things I ever read was that a new batch of Russian agricultural technicians was going to Cuba. I do not mean to suggest that the Cubans will never solve their sugar problem, but you would think there would be better people to advise them than the Russian technicians.

Furthermore, there is resentment about foreign aid at home. We certainly know that Americans resent American foreign aid because resources which could be used here are sent overseas. The Russians also have this kind of problem. First of all, there was the economic slowdown which took place in the Soviet Union in the very late 1950's and 1960's. Their farm problems required large importations of grain from Canada in 1963 and 1965. They also began to discover that they had a balance of payments problem with their foreign trade largely because of the wheat import. This made it much more difficult to continue to import raw materials at an unrestrained level. Again they discovered there was only so much coffee they could bring in, so much cotton they



Fig. 4 – The empty Russian-built hotel in Conakry, Guinea.



Fig. 5 – The small stream being dammed in Nepal.

could buy; and they began to cut back on such programs. Some American economists have found actually that Russia's purchases of these commodities are less dependable than those of the countries in the West.

These were natural isolationist tendencies. Many Russians were also asking why they should help these countries when there was so much to do at home. Khrushchev himself gave such a statement at one time when he was talking about the Bhilai steel mill, one of their most successful projects. "Why do we do this? Certainly not because we have a surplus of such equipment. We sent machines and machinery that could have been useful to us in our own economy." In other words, he was responding to people who were finding fault with Russia's help overseas.

Furthermore, there have been no additional political results; neutralism, yes; but after neutralism, what? Certainly there seems to be no move to communism. No country which has started receiving Soviet foreign aid has gone Communist because of it.

Finally, they began to have problems with other Communist countries, the one-time satellites. I think satellites now is an obsolete term. This is especially true of the Chinese who, in many respects, are more the Soviets' enemy now than their friend. The Chinese began to resent Soviet foreign aid to other countries. Every steel mill that was built in India or dam that was built in Egypt was one less that could be built in China. Furthermore, almost all of the Communist countries resented bitterly the joint stock companies which were set up right after World War II. The joint stock companies were creations that even Standard Oil and United Fruit, two examples of what we consider most aggressive international traders, would not think of. Joint stock companies es-

entially were set up on a 50-50 ownership basis. Fifty percent came from Rumania or Hungary, or even Yugoslavia or China, and the other 50 percent came from the Soviet Union. The Soviets' share, at least in Eastern Europe, consisted entirely of captured German assets. In other words, these companies were located outside the Soviet Union, the Russians were part owners, but it cost them nothing. The president of the stock company was always a local, but the general director was always a Russian, and, of course the power lay with the general director. This lasted until the uprising in Berlin in 1953 and Hungary in 1956 when the joint stock companies were finally liquidated.

There were also joint stock companies in China. The ironic thing, of course, is that the Russians had one or two with Chiang Kai-shek, but after Chiang Kai-shek was deposed Mao agreed to some things that Chiang Kai-shek opposed. Mao permitted the creation of two new joint stock companies which were to bore for uranium and oil. The Russians actually obtained more concessions from Mao than they did from Chiang Kai-shek. Today the Communist Chinese are very bitter about such episodes, as indicated by one of their attacks in 1964. "You bully those countries whose economies are less advanced" — those countries being socialist countries — "and oppose their policy of industrialization and try to force them into remaining agricultural countries forever so they can serve as your source for raw materials and goods."

Well, this is exactly what the Russians and Chinese have been saying about us. Now the Chinese are saying this about the Russians. You know, it is an ironic twist, but, of course, it is what tends to happen when you become rich as the Russians have become rich.

It became pretty clear that the Russians were encountering their critics.

The best indication we had that they had lost much of their old punch and were cutting back their aid program was when they lost their sense of timing. Algeria was given its independence in July 1962 from France, and normally on occasions like this the Russians would immediately rush in and say, "Here's a new aid treaty" or new aid agreement. But no aid agreement was announced from July 1962 until September 1963. In other words, there was nothing for more than a year. This seemed to be an incredible slip.

By late 1963, about the time of the Algerian loan, the Russians apparently decided to resume their promising foreign aid. Thus, for about a year's time there were no new promises of aid; there were deliveries on old promises but no new promises. Then suddenly between late 1963 and 1965 there was a flourishing, a renaissance of aid. Now what explains it? This is the third period.

To some extent, new opportunities developed that had not existed before. Some of Russia's immediate neighbors on the south decided that they had better start playing the game. They concluded they were not getting enough help from the United States. Simultaneously they decided that the Russians were less of a threat than they thought. This was especially true in Turkey, Iran, and Pakistan. For a variety of reasons, partly ours, partly the Russians, the Soviet Union became more friendly. These countries began to welcome commerce and aid from the Soviet Union — something they had avoided for the entire postwar era. The Russians were delighted to oblige.

There is also something that I like to call the quicksand effect. Once you

are in you cannot get out. This is something we are familiar with too. In the case of Egypt, the Russians simply could not back out from the aid they had given to the United Arab Republic. The pressure was especially strong in 1964. Khrushchev was there; his advisers explicitly told him (I was told this by Russian advisers in Cairo) that there should not be any more aid extended to Egypt, and he was advised not to make new promises. But the Egyptians expected new promises above and beyond the dam. I mentioned this to some Egyptians in the central bank. I said, "Well the Russians tell me they won't give you any more aid." They said, "They'll have to." "What will happen if they don't?" They said, "Allah will take care of it." And sure enough, Khrushchev did announce that there would be a new agreement. Subsequently, when Khrushchev was displaced 4 or 5 months later one of the charges against him was that he gave aid unauthorized by the Central Committee of the Presidium. But what happened was that Khrushchev felt he couldn't spoil the whole thing when they had already made such a commitment. The Russians had made their big show, but they could not withdraw. The same kind of thing happened in India and Afghanistan.

While some of the factors I have just mentioned help to explain the renewal of aid promises, I think the most important thing was the competition and pressure from China. This was a fascinating development. China had promised aid earlier to other Communist countries — especially to Hungary, North Korea, North Vietnam, Cuba, and Mongolia. But Mao soon became interested in the neutralist countries as well. If you look at Figure 6 one of the things that happened is that beginning in late 1963 and continuing into 1964 there

Fig. 6 — Soviet & Chinese Loans Immediately Prior to the Algerian Conference
(million dollars)

RECIPIENT	CHINA		SOVIET UNION	
	LOAN	DATE	LOAN	DATE
Afghanistan	\$28	3/65	\$39	6/64
Algeria	50	10/63	100	9/63
			128	5/64
Cambodia	5-10	11/64	12	11/64
Ceylon	4	2/64		
Congo-Brazzaville	25	1965	9	12/64
Ghana	22	2/64		
Indonesia	50	1965		
Iran			39	7/63
Iraq			140	3/65
Kenya	28	1964-65	3	1964
Pakistan	90	7/64-1/65	11-70	7/64
Senegal			7	11/64
Somali	21	8/63		
	3	1/65		
Tanzania	29	6/63	42	8/64
	14	6/65		
Turkey			168	4/64
UAR	80	1/65	277	5/64
Uganda	15	1965	15	12/64
Yeman	28	5/64	72	3/64
Zambia	.5	2/64		

seemed to be a real competition between the two countries. It was like a poker game. One country would announce an aid project — a promise of a loan — and the other country would immediately come along and try to top it. Now, how do you explain that? Well, back in 1963 there was considerable discussion about the second Afro-Asian conference which was supposed to have been held in Algeria. This was scheduled just before the coup which threw out Ben Bella. One of the big issues preceding this postponed conference was whether the Russians should be allowed to participate. Why should the Russians want to participate? Well, they wanted to participate because they wanted to show that they belonged to the Afro-Asian bloc. Why did the Chinese want to exclude them? There were several reasons.

Asian countries said that, in fact, Russia was not an Afro-Asian member, this would mean that all of Siberia really had been seized by the Russians as a colonialist power. Thus, Russia was not a legitimate Asian country. The ramifications of this should be clear.

To win support for their opposing views, there was a good deal of lobbying backed by aid promises. So look what happened. In the case of Algeria the Russian loan is met by a loan from the Chinese which, in turn, is countered by a loan from the Russians.

Finally, of course, in September 1965 the whole conference was canceled. This brings us to the last period. The Chinese simply could not keep up the pace and have made only occasional loans since then. They were really overstraining their resources to begin with. Most of their work was simply

foreign currency. As for the Russians, when they found the competition was no longer so pressing, they too cut back. Although recently their economic growth seems to have been a little better than it had been in previous years, their domestic economic problems have not really been solved. At the same time there has been an important foreign turnabout. For years the Russians had been attacking the status quo. It has generally been our task to maintain the status quo in the neutralist world. But it is usually much easier to attack these governments than to have to defend them. But suddenly the Russians found that they also had to defend the status quo. They discovered that Ben Bella was arrested in Algeria, that Nkrumah was expelled in Ghana, that Sukarno had been deposed in Indonesia; all the "go-go" leaders that I was talking about. The Russians also found that they were being classified as a rich country. Thus, at the UNCTAD (the United Nations Committee for Trade and Aid) meeting in Geneva in 1964 the Russians were hopeful of an East-West confrontation. Instead they found a North-South confrontation. The Russians were lumped, whether they liked it or not, with Western Europe and the United States.

The Russians also began to notice that even though the aid deliveries had been made, sometimes repayment was not. Thus they have been forced to grant debt postponements to Indonesia, Ghana, and Guinea and, of course, to the UAR.

The Russians also found that their aid often created a conflict of interest. When the Russians offered aid to countries like Egypt or Iraq, one of the first things that seemed to happen was that local Communist members were put in jail. This can be terribly embarrassing. What do you do? The

Russians have been criticized by the Chinese and the Cubans for permitting such reactionary practices. There is also a conflict between international prestige in the Soviet Union and the international cause of communism. If you can accept the premise that good economic aid helps to build a country by making it economically strong, then communism is going to have less of a chance in those areas where the Russians have given economic aid. And if communism has less of a chance, the Russians then are frustrating their own purposes. The Russians are very embarrassed about this kind of thing. Thus in late 1966, when the Egyptians began to arrest another Communist faction — the Chinese faction — the Russians ran an article discussing the problem. They made the point that "not a single Egyptian Marxist had suffered from political repression *recently*." This was their way of indicating that the pro-Russian faction of the Communist Party had not been harassed for quite some time.

The Russians also find themselves in the middle when there is fighting between the recipients of their aid. This is again a problem that we have had. The Russians give aid to Pakistan, and the Indians are upset, and vice versa. If you give aid to Ethiopia, the Sudanese are upset. And so is Somali, and so is Kenya.

Amid all their past problems there seems to be a new twist to Soviet aid; they are beginning to put increasing emphasis on obtaining a return on their investment. They are beginning to direct their resources to areas where it is more commercially feasible, where there seems to be a better chance of producing something. At times this leads them to cooperate with the United States against China. This has happened in Afghanistan and, to a certain extent, in Nepal. It's

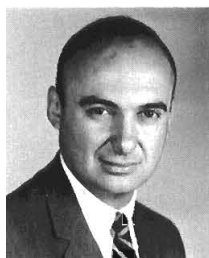
not an official policy, I am certain, in either Washington or Moscow. It just seems to be that the people in the field agree that this is a wise policy to follow. It sometimes happens that each country assumes or is assigned the task of building a section of a country's road network. Inevitably they meet and they cooperate. This is exactly what happened in Afghanistan. Russian roads begin where American roads end, and vice versa. In Nepal, there is a similar kind of concern. Both countries agree that if Nepal is ever to repay its loan, the aid projects must be economically sound. As a result, there has been consultation between American Embassy people and Russian Embassy people about what kind of projects should be built by each country.

Well, of course, this cooperation cannot be counted on in all places. This is clear from what happened in the Middle East this past summer. But I think the point should be made (although I don't want to overdo it) that the Russians could have acted much worse than they did. How much worse is a question, but I think they could have. Don't forget that they did reach a point in the United Nations where they did agree with the American position about the negotiations in the Middle East. They went to the Arab countries and said, "Why don't you agree to this specific proposal that was drawn by the United States?" But then Algeria and Iraq refused to do it, although Egypt was certainly willing. But the point I want to make is that in some of these areas the Russians have something to lose. They now have a vested interest in what happens. They want to maintain the status quo and they do not want to rock the boat. Similarly, in the case of India and Pakistan the Chinese were a dangerous threat, but I think that part of

the reason for the Russian desire to bring about peace over Kashmir (which they did and which we couldn't do) was partly because the Russians have over a billion dollars invested in India. Like any investor, they wanted to make sure that trouble was avoided so that their projects did not suffer.

Before concluding I would also like to note the role that Soviet military trade plays. We are aware that the United States is the world's largest arms merchant, but the second largest, of course, is the Soviet Union. And just as Soviet aid is more important in some of these countries than American aid is, so Soviet military trade often exceeds American military trade. Most Soviet military trade tends to be on a commercial basis. It's for barter or some other kind of payment. It serves, just as our military trade does, as an

BIOGRAPHIC SUMMARY



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important sales outlet for industry, but it is also like a secondhand market in that it provides an outlet for obsolete equipment. In the case of Indonesia, Egypt, and to a certain extent, Ghana, India, and other countries, this trade amounts to millions of dollars. In Indonesia it was probably over a billion dollars. So, in a sense again, there is another area of similarity that the Russians have with the United States.

Well, in conclusion, what lessons are there for the future, and what can we learn as Americans about this? Well I think that for the future we can probably expect less aid from the Russians. I think that they're much more concerned about their problems at home. I do not think they will reach the levels that have had earlier, but I would not want to promise. Furthermore, Vietnam and Cuba are a drain on what they are doing. But, again, the similarity also applies to the United States. I think there will be much more emphasis on the interest rate and therefore less spectacular and more pragmatic types of projects. As for the United States, I think we can learn a lot from the Russians, especially in the field of public relations. Let's send Johnson and Humphrey out into the boondocks every once in a while

and let them look at some of these things and encourage other top officials to do the same. Maybe we too can make *Life* magazine. Let people know what's there. I think we should pick one or two flagship projects that constitute a dramatic and exciting challenge. Such projects would take a lot of time and patience. But if we had such a project, then it would serve to focus the whole American aid effort. The other work we have done would fall in behind. I do not want to say, by any matter of means, that we should drop what we are doing. I think the leadership programs and the food are important. We have realized how important food is, but I think it helps if you have something that you can focus on when you talk about American aid generally.

The important thing to understand is that foreign aid is a frustrating business — no matter who you are — no matter where you give it. There is no secret of automatic success. You have to be patient. You have to hold on. There will be results ultimately, and I think that the demand must be satisfied. But it may help if we realize that we have no monopoly on mistakes. The Russians have discovered that.



Uproar in the East; strike in the West.

*Sun Tzu, 400-320 B.C.,
The Art of War*