

A PIPELINE TO ARMS: OSTHANDEL AND THE RISE OF SOVIET ARMS SALES
TO THE NON-COMMUNIST THIRD WORLD

by

CHARLES CARTER

(Under the Direction of William Stueck)

ABSTRACT

While West German trade to the Soviet Union (*Osthandel*) enabled Moscow to achieve a favorable balance of trade with West Germany by the mid-1980s, it was a source of debt for the Soviets. West German exports and credit to the USSR during the early 1970s were the principal sources of Soviet hard-currency debt. Yet, by the mid-1970s, Moscow needed continual West German exports and credit to further modernize the USSR and to develop and transport Soviet natural gas. Because of Soviet debt, however, West Germany would not fund the construction of a larger pipeline that would really allow the USSR to make energy sales profitable. In part to pay down its debt, Moscow resorted to increased arms sales to the Third World in the mid-to-late 1970s. It was through these arm sales that Moscow raised sufficient hard currency to pay down the Soviet debt by 1980. Yet it was also through these arms sales that the USSR provoked increased American arms sales to the Third World in return. The many deaths from civil wars in the Third World during the 1980s were an unfortunate result of this chain of events.

INDEX: EAST-WEST TRADE, SOVIET ARMS TRANSFERS, THIRD WORLD.

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INTRODUCTION

Under Willy Brandt's leadership in the early 1970s, Bonn's diplomatic relations with Moscow dramatically improved. With Brandt's *Ostpolitik* came trade relations between West Germany and the Soviet Union as well. These trade relations were largely one-sided, consisting mostly of West German trade to the USSR (*Osthandel*).¹ West German banks also financed large Soviet projects, including a natural gas pipeline between West Germany and the Soviet Union, as well as steel and chemical plants in the USSR. As a result, Moscow became increasingly in debt to West German banks as the decade wore on.

By 1976, despite having piped natural gas to West Germany for three years, the USSR had failed to achieve a favorable balance of trade with the Federal Republic of Germany (FRG). At this time, Soviet leader Leonid Brezhnev wanted a much larger pipeline to link the Urengoi gas fields of Siberia to West Germany. From the FRG, Siberian gas could be piped into a grid, allowing the Soviets to sell more of this resource to Italy and France as well. A larger European market for gas, Brezhnev believed, would allow the USSR to profit from energy sales in the long-term. Yet, as his nation's hard-currency debt mounted, Brezhnev was unable to persuade the West German government to approve and finance the project.

This study examines how Moscow ultimately secured West German financing of the Urengoi pipeline, known as the Siberian pipeline in the West. In part to raise hard

¹*Osthandel* refers to West German trade to the Soviet Union and Eastern Europe. In this paper, though, I use the term to deal only with West German trade to the USSR.

currency to reduce debt and to continue receiving vital West German technology necessary for Soviet industries, Moscow sold arms to the non-communist Third World at an unprecedented rate during the late 1970s. While there is no doubt that Soviet geopolitical interests drove some of these weapon sales, this study shows that the USSR also had a strong economic motive to sell arms linked specifically to *Osthandel*.

This topic is worthy of research for two reasons. First, no scholarly work has explored the relationship between *Osthandel* and the sharp rise in Soviet arms sales to the non-communist Third World. The few works that have explored Soviet arms exports in general for these years, almost all performed by political scientists during the 1980s, consist of theory, detailed lists of weapons exports, and predictions of future arms sales.² “A major problem of the literature devoted to arms supply,” one scholar has complained, “is that it is descriptive rather than explanatory in nature.”³ This study is largely explanatory.

The second reason this topic deserves attention is its implications. Despite the many virtues of West German trade, *Osthandel* had some negative indirect consequences. The rise in Soviet arms sales to the non-communist Third World undermined détente, leading the United States to increase its military exports to less-developed nations in return. In addition, Soviet and American arms sales helped make possible the many thousands of deaths from wars in the Third World during the 1980s.

Chapter 1, “*Ostpolitik and Osthandel*,” traces the many improvements in diplomatic and economic relations between West Germany and the Soviet Union during

² Examples include Michael Brzoska, *Arms Transfers to the Third World, 1971-85* (Oxford: Oxford University Press, 1987); Christian Catrina, *Arms Transfers and Dependence* (New York: Taylor & Francis, 1988); Edward J. Laurence, *The International Arms Trade* (New York: MacMillan, 1992).

³ Ilan Peleg, “Arms Supply to the Third World: Models and Explanations,” *Journal of Modern African Studies* Vol. 15, No. 1 (1977), p. 94.

the 1970s. This chapter examines West German-Soviet trade relations in particular detail, given their effects on the Soviet economy. As West German trade increased as the decade wore on, the Soviets developed large trade deficits with the FRG, as well as a substantial hard-currency debt. These factors, it will be shown, hindered Soviet ambitions to profit from energy sales to the West.

Chapter 2, “*The Rise of Soviet Arms Sales to The Non-Communist Third World*,” explores the role of *Osthandel* as a push factor for the sharp increase in Soviet arms exports to the non-communist Third World in the late 1970s. Other motivations for the rise in Soviet weapons sales, including the Kremlin’s desire to use arms sales for political influence and leverage, as well as Moscow’s ideological and geostrategic interests in the non-communist Third World, are discussed as well.

Chapter 3, “*The American Response*,” details how growing Soviet arms sales to the non-communist Third World became Washington’s *official* justification for increasing American military sales to less-developed nations. Because most American arms sales were to the Middle East, this chapter explores that region in particular detail.

The concluding chapter, “*The Pipeline is Built*,” examines how by 1980 the Soviet Union had earned sufficient hard currency from arms sales to the non-communist Third World to reduce its debt and thus attract West German financing of the Siberian pipeline. This chapter also examines the political fallout between West Germany and the United States over the pipeline’s development, as well as the positive economic effects of the pipeline on Soviet-West German trade relations in the early 1980s.

CHAPTER 1: OSTPOLITIK AND OSTHANDEL

Willy Brandt, the former Mayor of West Berlin, became Chancellor of West Germany in 1969, a time of increasing tension between Eastern and Western Europe. In 1968, the Soviets had angered many West Germans by suppressing a pro-democracy movement in Prague. Moscow also seemed more threatening than before. Soviet leader Leonid Brezhnev had just established the Brezhnev Doctrine, a policy which made clear that the USSR would use military force to prevent its satellites from becoming democracies.

Brandt believed, however, that West Germany shouldered some responsibility for East-West tensions. In particular, he deemed the Hallstein Doctrine a failure. According to this doctrine, established by Konrad Adenauer's government in 1955, the FRG would not continue official diplomatic relations with any nation that recognized the government of East Germany. This meant that West Germany lacked diplomatic relations with Eastern Europe throughout the 1960s, but it did not discourage other nations from recognizing the government of East Germany. Cuba, Iraq, India, and Egypt all initiated diplomatic ties with the GDR in the 1960s.⁴

For Brandt, the real dangers of the Hallstein Doctrine were its effects on Europe. It perpetuated the division of Germany, he insisted, and provoked unnecessary strife between East and West.⁵ By dealing with communist states rather than officially ignoring them, the new Chancellor believed that positive changes would occur in Eastern Europe.

⁴ Willy Brandt, *My Life In Politics* (New York: Viking, 1992), 147.

⁵ Willy Brandt, *A Peace Policy for Europe* (New York: Holt, Rinehart and Winston, 1969), 95-97.

By exposing the East to the virtues of democracy, he thought communist nations would over time allow more freedom. The Hallstein Doctrine, after all, had shown that ignoring the East only brought hostility. “The interests of Europe and the interests of the people,” Brandt wrote in 1969, “depend on the preservations of freedom and the reduction of tension.”⁶

Indeed, Brandt’s chancellorship was characterized by a considerable improvement in East-West relations. After denouncing the Hallstein Doctrine, Brandt first went to work on normalizing West German-Soviet economic relations. In August 1970, Brandt and Brezhnev signed the Moscow Treaty, a twenty-year pact according to which West German economic assistance would be used to develop the natural resources of the Soviet Union.⁷ In December 1971, Brandt was awarded the Nobel Peace Prize for his *Ostpolitik*.⁸ The spirit of cooperation between Bonn and Moscow produced other treaties as well, most notably the Transit Agreement of 1972. This treaty opened channels for East Germans to visit West Germany. Forty thousand East Germans per year traveled to the FRG throughout the 1970s.⁹

From the beginning of his chancellorship, Brandt did not believe that a desire to reduce tensions in Europe drove the communist bloc’s interests in improving relations with the West. Rather, he thought these nations sought cooperation with West Germany largely to boost their economies through trade. “The interest of the East European states

⁶ “Vor einer neuen Phase der Ostpolitik,” Brandt’s speech before the West German Parliament, 7 May 1969, in *Aussenpolitik der Bundesrepublik Deutschland: Dokumente von 1949 bis 1994*, 324.

⁷ “Erklärung des Bundeskanzlers zum Moskauer Vertrag vor der Presse in Bonn am 14.8.1970,” in *Die Aussenpolitik der Bundesrepublik Deutschland* (Berlin: Wissenschaftlicher Autoren-Verlag, 1982), 334-35; *Washington Post*, August 30, 1970. See also Willy Brandt, *Begegnungen und Einsichten: Die Jahre 1960-1975* (Hamburg: Hoffman und Campe, 1976), 428-429.

⁸ Brandt, *My Life in Politics*, 222.

⁹ Timothy Garton Ash, *In Europe’s Name: Germany and the Divided Continent* (New York: Random House, 1993), 655.

in cooperation with us,” he wrote in 1969, “rests to a large extent on a desire to make economic progress and to participate in western technology.”¹⁰

The Kremlin, in particular, desired trade relations with West Germany. In the late-1960s, the growth rate of the Soviet economy steadily declined, falling from 8.6 percent in 1967 to 6.1 percent in 1969.¹¹ While the growth rate for 1969 was certainly not poor, it was still a nasty reminder of Moscow’s limited success in increasing industrial growth. In fact, 1969 marked the smallest increase in Soviet industrial growth since 1945.¹² Obsolete technologies had hindered Soviet steel production. Throughout the 1960s, the USSR was slow in shifting to efficient ways to produce steel such as the “direct reduction” process.¹³ According to the CIA, the lack of machine tools, particularly Gleason gear-cutting tools, was responsible for the Soviet Union’s poor automobile production.¹⁴ There was also the widespread belief, as the following Soviet citizen expressed, that Moscow had spent far too much in developing military and space technology, resulting in a failure to produce industrial goods for consumers:

The Soviet Union has found to its chagrin that it is one thing...to build intricate missiles and atomic submarines and beat the Americans into space, but a totally different thing to develop the technology needed to mass produce consumer goods, such as attractive and economical automobiles and cheap refrigerators.¹⁵

¹⁰Brandt, *A Peace Policy for Europe*, 110-11.

¹¹Angela Stent, *From Embargo to Ostpolitik: The Political Economy of West German-Soviet Relations, 1955-1980* (Cambridge: Cambridge University Press, 1981), 171.

¹²“Krupp Expects Trade with Reds to Quadruple,” *Washington Post*, August 30, 1970.

¹³Philip Hanson, *Trade and Technology in Soviet-Western Relations* (New York: Columbia University Press, 1981), 140 n.18.

¹⁴US Central Intelligence Agency, Economic Research Department, *The Soviet Motor Vehicle Industry’s Need for Gleason Gear Cutting Machine Tools*, CSI-2000-00005, May 1970, pp. 1-9.

¹⁵Quoted in “Russian Motives In Talks Assessed,” *New York Times*, August 2, 1970.

In 1970, to acquire outside help in raising Soviet industrial growth and output of manufactured goods, the Kremlin developed an “import-led strategy.”¹⁶ West German technology and machine tools, Moscow hoped, could be put to use to increase Soviet industrial output. During the 1950s and 1960s, West Germany had experienced its famous “economic miracle,” becoming Europe’s leading exporter of manufactured goods and engineering technology.¹⁷ For this reason, the Soviets found trade relations with West Germany especially attractive.¹⁸

Paying for West German capital goods and technical expertise posed a problem for the Soviet Union. According to Soviet Foreign Trade Minister Nikolai Patolitshev, the USSR had “virtually no oil reserves” in 1969-70.¹⁹ For this reason, Moscow did not propose selling petroleum to West Germany for the hard currency needed to purchase imports. Rather, the Soviets focused on natural gas sales. If the Soviet Union could pipe gas to the FRG, the Kremlin reasoned, the USSR could raise the hard currency necessary to pay for West German equipment, machinery, and industrial technology. To do so, Moscow first needed to establish a gas pipeline between the two countries.²⁰

Under Brandt’s leadership, the Soviets saw their wish come true. On March 1, 1970, five months before the Moscow Treaty, Patolitshev and West German Economic Minister Karl Schiller signed an agreement to construct a natural gas pipeline between

¹⁶ For more information, see Helene Seppain, *Contrasting US and German Attitudes to Soviet Trade, 1917-91* (New York: St. Martin’s Press, 1992), 212.

¹⁷ Stent, *From Embargo to Ostpolitik*, 27-28.

¹⁸ “It was primarily Russian needs for West German capital goods and technical know-how,” West German entrepreneur Berthold Beitz reported, “that made the Soviet leaders decide to seek a settlement with Bonn.” See “Krupp Expects Trade with Reds to Quadruple,” *Washington Post*, August 30, 1970.

¹⁹ MemCon, “Kurzprotokoll über das vertrauliche Gespräch zwischen Minister Schiller und dem sowjetischen Aussenhandelsminister Patolitschew,” February 1, 1970, BA 102/1000026, cited in Werner D. Lippert, *Richard Nixon’s Détente and Willy Brandt’s Ostpolitik: The Politics and Economic Diplomacy of Engaging the East* (Ph. D. Dissertation, Vanderbilt University, 2005), 66.

²⁰ Ibid.

the two nations. According to the agreement, the Germans would ship 1.2 million tons of pipe to the Soviet Union and provide technical support in the pipeline's construction. The Germans also agreed to provide the Soviets a credit line of DM 1.5 billion. The Soviets, in exchange, would supply natural gas to West Germany for profit but had to pay off the debt over a ten-year period at an interest rate of 6.25 percent.²¹ The Soviets agreed to provide forty percent of the chromium plating and grinding cylinders as well.²²

By October 1973, the Soviets had finished building the pipeline, which passed through Czechoslovakia. The link was established at Waidhaus, a small town in Bavaria. That same month the USSR began piping gas to West Germany.²³ After deliveries of gas began arriving in Bavaria, Brandt worked out an additional deal with Brezhnev to receive more gas. The West German government thus extended additional credits to the USSR for more deliveries, making the total amount the Soviets owed to the West German government for the pipeline rise to DM 4 billion (\$1.48 billion).²⁴

But just as the gas started to flow, Brandt was forced to resign over the Guillaume affair. During Brandt's term in office, Günter Guillaume, a personal assistant and confidant of the Chancellor, had secretly been a spy for the East German Stasi. Once this was revealed in October 1973, West Germans lost confidence in Brandt's leadership, forcing the Chancellor's resignation in May 1974.²⁵ Because the Soviets had a strong working relationship with Brandt, Moscow worried that this nasty episode would impede Soviet-West German trade.

²¹ Randall Newnham, *Deutsche Mark Diplomacy: Positive Economic Sanctions in German-Russian Relations* (University Park, PA: University of Pennsylvania Press, 2002), 157-158.

²² "Moskau-Verhandlungen," *Der Spiegel*, March 16, 1970. p.31.

²³ *New York Times*, October 1, 1973

²⁴ *The Soviet Union 1974-75: Domestic Policy, Economics, Foreign Policy* (New York: Holmes & Meier Publishers, 1976), 134-35.

²⁵ Brandt, *My Life in Politics*, 286-309.

Any worries quickly diminished when Helmut Schmidt became Chancellor of the FRG in May 1974. From the same political party as Brandt, Schmidt held the former Chancellor's convictions that West German-Soviet trade was a stabilizing force for Europe. In his memoir, Schmidt admits he took part "in the intellectual preparations" for Brandt's *Ostpolitik*. "As Chancellor," he writes, "I was fully determined to continue and elaborate on these policies, as the Soviets well knew."²⁶ On several occasions, Schmidt told Moscow that he planned to continue Brandt's *Ostpolitik* and *Osthandel*. Throughout August 1974, *Pravda* praised Schmidt for his commitment to East-West cooperation.²⁷

During Schmidt's term in office, the Soviet Union began to obtain large loans from commercial banks in West Germany. While Bonn typically only made loans to the USSR to develop huge projects such as the pipeline, West German commercial banks granted Moscow loans to purchase Western technology for Soviet industries. With normalized economic relations between Bonn and Moscow, commercial banks in West Germany were able to grant loans to the Soviet Union. West German businesses were also given freedom to sell products and provide technical expertise. As West German industrialist Otto A. Friedrich stated, "German companies were completely free in their entrepreneurial decisions. They could not be pressured by the state or by their own associations to behave in a certain way."²⁸

During the mid-to-late 1970s, West German commercial banks granted the USSR an extensive credit line. While some of these loans were for enhancing Soviet oil-exporting capabilities, others were for strengthening Soviet industrial and chemical

²⁶ Helmut Schmidt, *Men and Powers: A Political Retrospective* (New York: Random House, 1989), 23.

²⁷ "Schmidt Says FRG to Continue Policy of Pacts," *Pravda*, August, 18, 1974; "Schmidt Reaffirmed Policy of Détente with Socialist Countries," *Pravda*, August, 31, 1974.

²⁸ Quoted in Volker R. Berghahn, *Quest for Economic Empire: European Strategies of German Big Business in the Twentieth Century* (Providence, RI: Berghahn Books, 1996), 153.

production. Between 1973 and 1976, a consortium led by the German Dresdner Bank, gave communist nations \$4.6 billion in credit, more than half of which went to the Soviet Union to build the world's largest steel plant in Kursk. In April 1977, one German bank gave the Kremlin a \$1.3 billion loan to develop a chemical plant in Mogilev, Ukraine.²⁹ A month later, a consortium of West German banks put up \$3 billion to build a petrochemical facility in Tomsk.³⁰ These are just a sample of the many loans that West German commercial banks granted.

With loans from commercial banks, the Soviets signed contracts with West German firms to import vital technology, transportation equipment, and machinery. In the mid-1970s, Moscow ordered 9,000 heavy trucks from Klockner-Humbolt-Dentz. The Soviet Ministry of Instrument Making acquired technologies from Siemens to produce microcomputers. The Soviets used loans from the German Dresdner Bank to acquire technical expertise in steel manufacturing from the firms Salzgitter, Krupp, and Korf. The firms Korf and Lurgi provided "direct-reduction" technologies for efficient steel manufacturing. For oil-mining equipment and metal pipe for oil pipelines, Moscow turned to Mannesmann. To develop gas pipelines inside the Soviet Union in the late 1970s, the Kremlin ordered large-diameter steel pipe from Mannesmann as well. Moscow acquired turbines for these gas pipelines from AEG-Kanis, a West German firm that also provided electronics installation for Soviet chemical plants.³¹

²⁹ Stent, *From Embargo to Ostpolitik*, 226; "Osthandel: So ein Geschäft," *Der Spiegel*, January 23, 1978, p. 42.

³⁰ *Business Week*, May 1, 1978, p. 45.

³¹ *The Soviet Union 1974-75, Domestic Policy, Economics, Foreign Policy* (New York: Holmes & Meier, 1976), 133-34; "Soviet Union," *Business Week*, January 23, 1978, p. 54; "Is the Siberian Oil Quest Bogging Down," *Chemical Week* (McGraw-Hill), February 1, 1978; "West Germany is No. 1 As Soviet Capitalist Trader," *New York Times*, February 22, 1978; "Minister on Instrument Manufacture" BBC, July 27, 1979.

To appreciate the value of *Osthandel* to the Soviets, some important facts need mentioning. Throughout the 1970s, West Germany was Moscow's largest trading partner among Western nations. Indeed, the value of all West German exports to the USSR for the decade was higher than total French, Italian, and British exports to the Soviet Union *combined*. During the 1970s, West Germany exported \$24.1 billion worth of goods to the USSR. The values for France and Italy, Moscow's second and third largest trading partners in Western Europe, were \$10.3 billion and \$8.3 billion respectively. The value of British exports to the USSR for the decade was only \$5.2 billion.³²

While the value of all American exports to the Soviet Union during the 1970s was \$14.7 billion, this figure resulted largely from grain exports. Starting in 1976, the Soviets ordered six million metric tons of American grain per year.³³ From 1975-79, agricultural products accounted for sixty-one percent of total American exports to the USSR. By contrast, agricultural goods comprised less than one percent of West German exports to the Soviet Union for the same period.³⁴

Except for agricultural exports, U.S. laws severely restrained American exports of other commodities. The Trade Act of 1974 denied favorable credit terms to the Kremlin and prohibited the sale of American high technology.³⁵ Because the Stevenson Amendment also limited total U.S. credit to the Soviet Union to \$300 million, the

³² Figures from *United Nations, Statistical Office, Yearbooks of International Trade* in Bruce W. Jentleson, *Pipeline Politics: The Complex Political Economy of East-West Energy Trade* (Ithaca, NY: Cornell University Press, 1986), 160.

³³ Statement by Under Secretary of Agriculture for International Affairs and Commodity Programs, Seeley G. Lodwick, October 29, 1982 in *American Foreign Policy Current Documents 1982* (Washington: Government Printing Office, 1984), 685-86.

³⁴ "Technology & Soviet Energy Availability," Report by the Office of Technology Assessment in response to requests by the House Committee on Foreign Affairs and the Senate Committee on Banking, Housing, and Urban Affairs, (Washington: Government Printing Office, 1981), 172.

³⁵ *New York Times*, December 8, 1978

Kremlin did not turn to the United States for machinery and equipment.³⁶ In November 1976, Brezhnev told U.S. Secretary of the Treasury William Simon that such discrimination did “not bode well for Soviet-American trade.” “In many dealings,” the Soviet leader remarked, “we now naturally prefer partners who trade with us on a normal, equal basis.”³⁷ Brezhnev primarily had the FRG in mind.

Several reasons explain West Germany’s position as the Kremlin’s main capitalist trading partner. First, geography played a role. Germany is closer to the Soviet Union than most other Western nations and thus was able to deliver goods faster and more cheaply. Second, the Germans, more so than any other people, had a reputation among the Soviets for their dependability and production of quality goods. Third, the German government had relatively little red-tape to hamper trade relations.³⁸

While France, Italy, and the United Kingdom participated in détente, these nations, like the United States, did not foster economic relations with the USSR to the extent that West Germany did. Italy, which experienced economic hardships in the mid-1970s, typically refused to grant loans to the Soviet Union.³⁹ France, as a net importer of industrial technology, could only provide Moscow with limited exports.⁴⁰ As for the

³⁶ Mike Bowker, “Brezhnev and Superpower Relations,” in Edwin Bacon and Mark Sandle, *Brezhnev Reconsidered* (Houndsmills, NH: Palgrave Macmillan, 2002), 99.

³⁷ Brezhnev’s Speech at the Dinner in the Kremlin to Mark the Fourth Session of the US-USSR Trade and Economic Council in Moscow in Warsaw, December 9, 1975, in Leonid Brezhnev, *Our Course: Peace and Socialism*, 287.

³⁸ “West Germany is No. 1 As Soviet Capitalist Trader,” *New York Times*, February 22, 1978.

³⁹ For more information on Italy’s restricted economic relations with Moscow, see US Central Intelligence Agency, National Foreign Assessment Center, *USSR: Problems in Financing Hard Currency Trade Deficits*, January 1, 1977.p.6.

⁴⁰ *The Soviet Union 1974-75 Domestic Policy, Economics, Foreign Policy*, 127.

United Kingdom, conservative elements of the British Parliament “created obstacles” to deter British-Soviet trade.⁴¹

While Moscow largely turned to the FRG to modernize Soviet industries, importing West German capital goods also proved a burden. Despite natural gas and even oil sales to West Germany from 1973 onward, the Soviets failed to achieve a favorable balance of trade with the FRG for practically the entire decade. From 1973-1978, the USSR accumulated a trade deficit of DM 11, 484 billion (\$4.7 billion) with the FRG.

Table 1.1: Soviet Balance of Trade with West Germany 1974-78 in DM Millions

Year	1974	1975	1976	1977	1978	1979
Total Soviet Exports to the FRG	3269.2	3240.2	4357.1	4560.8	5438.4	7381.2
Total Soviet Imports from the FRG	4773.7	6948.2	6755	6450.8	6301.4	6623.7
Soviet Balance of Trade with West Germany	-1505	-3708	-2398	-1890	-863	757.5

Source: Statistisches Bundesamt Wiesbaden: Fachserie 7, Reihe 1

⁴¹The following quote from the BBC from January 1979 reflects the obstacles that hindered Soviet-British trade in the late-1970s: “When describing the prospects for Soviet-British co-operation in the near future one cannot help but mention the obstacles. In Britain there are still influential forces against easing tension and greater international co-operation. Certain groups that want to turn the clock back to the cold war are against more business relations with the Soviet Union. They urge their Government to add new obstacles to economic relations with the Soviet Union. It is obvious that trade and economic co-operation between the two countries can develop successfully only if favourable conditions are created for that, only when there are no discriminatory limitations and only when trade is not used to interfere in another country's home affairs.” Taken from “Prospects for Soviet-British Trade,” BBC, January 26, 1979. www.bbc.uk.

Because the value of their imports was greater than that of their exports, the Soviets found it hard to pay off loans to West German commercial banks. These banks did not accept the *ruble*.⁴² “The Soviet *ruble* is not convertible,” *US News & World Report* reported in 1977, adding that “debts owed to non-Communist nations must be paid in foreign currencies.”⁴³ West German commercial banks required payment with forms of hard currency, including the *deutsche mark*, *dollar*, and *pound sterling*. Hard currency, it turned out, was scarce for the Soviets. As will be shown later, practically the only means through which Moscow earned hard currency were energy sales to the West and arms sales to the non-communist Third World.

Determining the Soviet debt to West German commercial banks by the mid-to-late-1970s is difficult. In the mid-1970s, no information clearing house had been set up to assess Soviet debt to these types of banks. Consortiums, usually led by West German commercial banks, provided much credit during this period. But given the international exchanges often involved in these consortiums, as well as issues of confidentiality, exactly how much debt the Soviets owed to any particular West German commercial bank during this period is unclear.

It is clear, however, that these institutions lost confidence in Moscow’s ability to repay debts. In 1976, Hans Joachim Schreiber of the Dresdner Bank stated that it would be “desirable” for Western commercial banks to establish an “information clearing

⁴² According to economist Robert W. Dean, “In normal trade relations, the multilateral exchange of goods is dependent on an unrestricted disposition possibility (i.e. virtually free access to each other market’s and a convertible currency, neither of which is operative in East-West trade.” Since the *ruble* was not a convertible currency, the West German central bank, as well as commercial banks, demanded payment for loans in hard currency. See Robert W. Dean, *West German Trade With the East* (New York: Praeger Publishers, 1974), 13.

⁴³ “In Russia, It’s Wise To Be Ready for Shocks and Surprises,” *US News & World Report*, June 13, 1977, p. 73.

house” to decrease “the guesswork” about how large the Soviet debt was.⁴⁴ Stressing the Kremlin’s debt, another German executive remarked in 1978 that “trade has gone about as far as it can for the time being.”⁴⁵ And the *New York Times* reported that the West Germans “have found the Russians increasingly poor credit risks.”⁴⁶

Adding to this problem was the growing Soviet debt to the West German government. Because government loans are of public record, determining Moscow’s debt to Bonn is relatively easy. Starting in 1973 the Soviets had to pay off a DM 4 billion (\$1.5 billion) loan to Bonn over a ten-year period for the construction of the pipeline completed that year. In 1974, Schmidt’s administration loaned the USSR another DM 1.5 billion (\$584 million) loan to upgrade that pipeline so that the Soviets could send more gas to West Germany.⁴⁷ Also, in 1974, the West German government loaned the USSR \$600 million to build a nuclear power plant in Kaliningrad to provide energy for West Berlin.⁴⁸ In 1975, the governments of West Germany, France and Italy also granted the USSR several loans (collective total \$2 billion) to build the Orenburg pipeline.⁴⁹ Not to be confused with the later and much larger Urengoi (Siberian) pipeline, the Orenburg project had its source in the Urals-Volga region, not Siberia. While the intended recipients of the Orenburg pipeline were largely Soviet satellite nations,⁵⁰ Bonn, Paris, and Rome helped finance the project in hopes of receiving gas from it starting in 1979.

⁴⁴ Quoted in “Communist Borrowing in Western Credit Markets May Total \$40 Billion,” *New York Times*, August, 16, 1976.

⁴⁵ Quoted in “West Germany is No. 1 As Soviet Capitalist Trader,” *New York Times*, February 22, 1978.

⁴⁶ *New York Times*, May 5, 1978.

⁴⁷ Newnham, *Deutsch Mark Diplomacy*, 173.

⁴⁸ “Bonn Ends Soviet Talks, Satisfied on Trade Deal,” *New York Times*, November 1, 1974.

⁴⁹ US Central Intelligence Agency, Foreign Assessment Center, *Current Outlook for the Soviet Economy; Major Credit Needs and Availabilities*, March 1, 1977, p. 8.

⁵⁰ *The Soviet Union, Domestic Policy, The Economy.. Foreign Policy*, Vol. V (New York: Holmes & Meier Publishers, 1980), 109.

By the mid-1970s, these loans, along with others, vastly accelerated the Soviet debt to Bonn. The total outstanding Soviet debt to the West German government alone in 1976 was DM 13.8 billion (\$5.9 billion).⁵¹ The Kremlin's outstanding debt to all Western governments for that year was only \$7 billion. That Moscow's debt to the West German government accounted for a staggering 6/7ths of the total Soviet debt to all Western governments in 1976 reflected the importance of Bonn's *Ostkredit*.⁵²

By the late 1970s, an information clearing house had been established to assess Soviet debt to Western commercial banks. According to an estimate from Bonn in early 1979, the USSR and its satellites owed Western nations (both governments and commercial banks) \$57 billion. The Soviet Union accounted for 30 percent of this debt, roughly \$16.2 billion.⁵³

While Brezhnev acquired Western funding of the Orenburg pipeline in 1975, his main interest was developing Soviet energy resources in Siberia, not the Urals-Volga region. In explaining the future economic plans for the Soviet Union in 1975, Brezhnev stated that "development is to be continued, in particular, of the west Siberia complex." The General Secretary boasted that "it will be able to account for nearly one half of the Soviet Union's oil and natural gas" in the long term.⁵⁴ Brezhnev sought to develop the USSR's oil fields in Siberia for Soviet domestic consumption, as well as for oil to sell

⁵¹ Figure from Martin Kreile, *Osthandel und Ostpolitik* (Baden-Baden: Nomos Verlag, 1978), 159. See also Newnham, *Deutsch Mark Diplomacy*, 172.

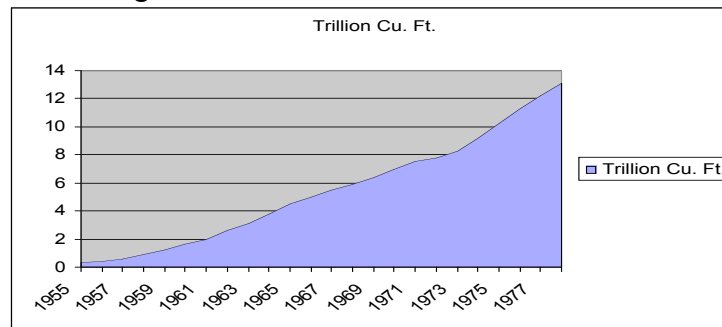
⁵² For total outstanding Soviet debt to Western governments for 1976, see U.S. Central Intelligence Agency, Foreign Assessment Center, *Current Outlook for the Soviet Economy; Major Credit Needs and Availabilities*, March 1, 1977, p.4.

⁵³ Estimates from Bonn in "East Europe's Debt to the West," *New York Times*, February 24, 1979.

⁵⁴ Brezhnev's Speech at the Seventh Congress of the Polish United Workers' Party in Warsaw, December 9, 1975, in Leonid Brezhnev, *Our Course: Peace and Socialism: Collection of Speeches by the General Secretary of the CPSU Central Committee* (Moscow: Novosti Press Agency, 1977), 114.

mainly to Soviet satellite nations.⁵⁵ In addition, he not only wanted to develop the region's natural gas fields for domestic consumption but also to sell gas to Western Europe. While the Soviet leadership also sought to sell oil to Western Europe, doing so required a delicate balancing act. If Moscow curtailed its oil sales to Soviet satellite nations to provide Western Europe with oil, the Kremlin could anger and alienate Warsaw Pact nations. This fact, along with rising Soviet gas reserves, meant the Kremlin devoted more effort to marketing gas sales.

Figure 1.1: Soviet Natural Gas Reserves 1955-78



Source: *Oil & Gas Journal*, Penn Well Publishing Company, October 22, 1979, p. 80.

To profit from gas sales to the West, Moscow needed a much larger pipeline to link the Urengoi gas fields of Siberia to Western Europe. According to Soviet officials, these fields would produce “no less than 7 trillion cu ft/year” of gas and would account for the “entire net gain in Russian gas production for many years.”⁵⁶ Since these gas fields were approximately 3,000 miles from the FRG, a pipeline would be tremendously costly, more than \$10 billion.⁵⁷ Besides being an obvious recipient of gas, West Germany

⁵⁵ From 1973-1982, Soviet satellite nations (CEMA) received more Soviet oil than Western nations did. See Ed. A. Hewitt, *Energy, Economics, and Foreign Policy in the Soviet Union* (Washington: Brookings Institute, 1984), 155, 163.

⁵⁶ Quoted in *Oil & Gas Journal*, Penn Well Publishing Company, May 22, 1978, p.31.

⁵⁷ When the pipeline was built in 1983, its total cost was \$14.5 billion.

was important for the construction of this pipeline because of its location. If the link were established in the FRG, gas could be pumped into a grid to supply Italy and France as well. Because these nations helped finance the Orenburg project that was underway, the French and Italians clearly had an interest in Soviet gas.

To construct the gasline, the Kremlin first needed Bonn's approval and then financing. According to Helmut Schmidt, throughout the mid-to-late 1970s, the Soviet leadership was obsessed with economic development through the Siberian gas fields. "In all my talks with Brezhnev and Kosygin," the Chancellor writes in his memoir, "I had the impression that both the general secretary and the premier basically saw economic expansion of their country as their chief task."⁵⁸ Regarding the larger pipeline, Schmidt states that "Brezhnev described in detail the source and reserves of raw materials in Siberia" and assured me that "the Soviets could in the future deliver great amounts of raw materials." Brezhnev "grew animated" when speaking about the subject, Schmidt writes, and "returned to it frequently in later years."⁵⁹

While a champion of German-Soviet trade, Schmidt did not push for West German approval and financing of the proposed Siberian pipeline in the mid-1970s because of Soviet debt concerns. In particular, Schmidt feared conservatives would oppose the project for this reason. While the Chancellor claims he "toyed with the idea of assigning a small portion of foreign currency to the Soviet Central Bank" from the Bundesbank, he thought the idea would not "prove viable."⁶⁰ "There can be no doubt," Schmidt writes, "that the USSR was a first-rate debtor."⁶¹

⁵⁸ Helmut Schmidt, *Men and Powers: A Political Retrospective* (New York: Random House, 1989), 37

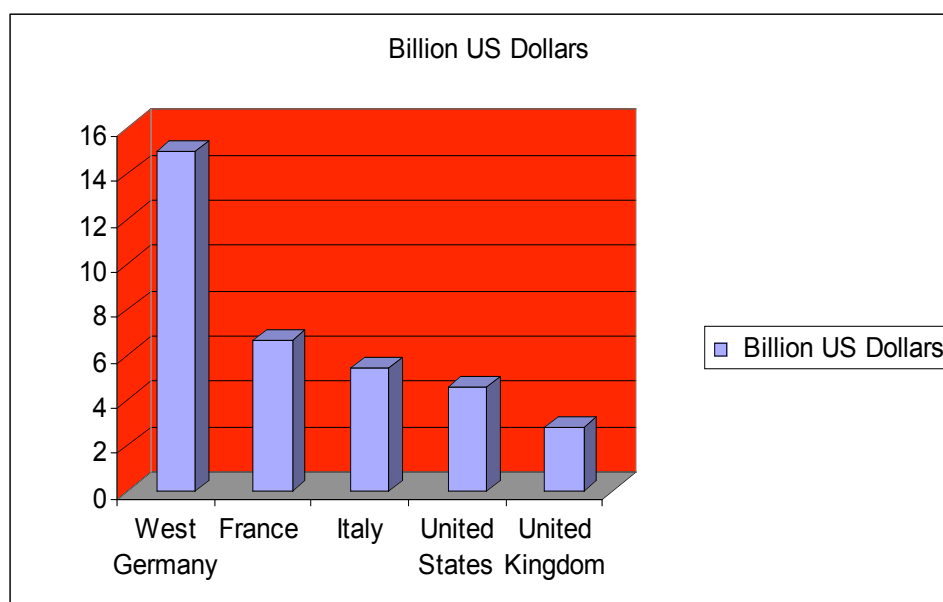
⁵⁹ Ibid.

⁶⁰ Ibid., 52.

⁶¹ Ibid.

Besides the talk of a larger gasline in the mid-to-late 1970s, Moscow needed West German trade. During this period, production of industrial machinery in the USSR could not support growth, as Soviet imports of Western machinery were larger than total domestic machinery production.⁶² West Germany was the largest provider of machine-tool equipment and industrial technology.⁶³

Figure 1.2: Total Industrial Exports to the USSR, 1975-79, for Selected Countries



Source: OECD, Statistics of Foreign Trade, Series B

The Kremlin also needed West German large-diameter pipe to transport natural gas. Of all capital goods the West exported to the USSR, pipe was the most expensive. “If we include large-diameter pipe in a measure of Soviet imports of capital goods from the West,” economist Philip Hanson writes, “the total is of the order of 40 percent higher in the 1970s than if the measure is confined to machinery and transport equipment

⁶² Angela Stent, *Economic Relations with the Soviet Union: American and West German Perspectives* (London: Westview Press, 1985), 61.

⁶³ Stent, *From Embargo to Ostpolitik*, 210.

alone.” The Soviet gas industry, Hanson concluded, was “dependent” on Western large-diameter pipe.⁶⁴

The Soviet Union obtained practically all of its large-diameter pipe from the West German firm Mannesmann. In the late 1970s, pipe exports to the Soviet Union accounted for 60 percent of Mannesmann’s *total* earnings. This firm provided the pipe for the Soviet-West German pipeline built during Brandt’s term in office. Mannesmann also furnished the pipe for the Orenburg gasline’s construction between 1975 and 1979.⁶⁵ American firms provided no pipe to the USSR. According to a Congressional report, the United States did “not produce the large-diameter pipe” that “constituted the USSR’s single most important energy-related import.”⁶⁶

Not surprisingly, as bankers complained about mounting Soviet debt, Moscow begged for more trade. “For financial reasons,” Soviet Foreign Trade Minister Nikolai Patolitshev told *Der Spiegel* in 1977, “we are forced to plead ever more for business dealings to be able to compensate.”⁶⁷ Because they needed continual credit from West German banks to develop their steel and chemical industries, as well as West German technology to develop and transport their natural resources abroad, the Soviets had a vested interest in raising hard currency not only to pay down their debt but also to pay for vital imports from the FRG.

⁶⁴ Philip Hanson, *Trade and Technology in Soviet-Western Relations* (New York: Columbia University Press, 1981), 132.

⁶⁵ See Anthony J. Blinken, *Ally Versus Ally: America, Europe, and the Siberian Pipeline Crisis* (New York: Praeger Publishers, 1987), 27, 32; For Mannesmann’s contributions in developing the Orenburg pipeline, see “West German Firms Get \$575 Million Job on Soviet Gasline,” *Wall Street Journal*, June 1, 1976; “German Concerns Soviet Job,” *Wall Street Journal*, February 2, 1978. “In Soviet Bloc, Economics Is Key to Unity,” *New York Times*, May 16, 1979.

⁶⁶ “Technology & Soviet Energy Availability,” Report by the Office of Technology Assessment in response to requests by the House Committee on Foreign Affairs and the Senate Committee on Banking, Housing, and Urban Affairs, (Washington: Government Printing Office, 1981), 19.

⁶⁷ Quoted in *Der Spiegel*, June 27, 1977.

Yet Moscow had few options to raise hard currency. As Anthony Blinken has noted, “raw materials and arms” were “the only salable commodities” the Soviets possessed. “A rigid, state-run economy,” Blinken writes, in which workers had “no incentive to innovate and manufacture first-class products” meant “the Soviet Union could not compete against more flexible economies.”⁶⁸ Because the Soviets were importing so much Western machinery, it did not make sense for them to export the relatively little machinery they produced. Arms, however, could be exported. Since 50-55 percent of the Soviet budget during the mid-1970s was devoted to defense, the Kremlin had no shortage of weapons.⁶⁹

In 1977, economist Mary Kaldor predicted that the Soviet Union soon would export more arms for hard currency. Using data from no later than 1976, she concluded the following:

The notion that hard currency earnings can be achieved through increased output of raw materials, including oil, is belied by the experience of the past five years... The production of arms is one area where the Soviet Union, like the United States, has a comparative advantage, and the sales of arms for hard currency is one obvious solution to Soviet debt problems.⁷⁰

In the mid-1970s, Kaldor pointed out, the Soviets had “curtailed” oil exports to Eastern Europe in favor of the West. This, however, did not stop the Soviet debt to the West from climbing and, in fact, caused economic hardship for communist-bloc nations, particularly Poland. Because of a projected decline in the growth of Soviet oil output in the late 1970s,⁷¹ Kaldor suggested, the Kremlin would likely have to curtail more oil sales to

⁶⁸ Blinken, *Ally Versus Ally*, 58.

⁶⁹ Ronald Scrivener, *USSR Economic Handbook* (London: Euromonitor Publications, 1986), 139.

⁷⁰ Mary Kaldor, “Economic Aspects of Arms Supply Policies to the Middle East,” in Milton Leitenberg, ed., *Great Power Intervention in the Middle East* (New York: Pergamon Press, 1979), 224.

⁷¹ In 1977, the CIA predicted a decline in Soviet oil production in the coming years because of diminishing production from oilfields in the Urals-Volga region. See US Central Intelligence Agency, National Foreign

Eastern Europe to reduce its debt to the West. Given the chaos this scenario might cause among communist bloc nations, Kaldor did not deem it viable.⁷²

Natural gas sales presented the Soviets with another dilemma. Unlike with oil, a pipeline is required to transport gas from one place to another.⁷³ In the mid-to-late 1970s, though, the Soviet Union had not established the infrastructure necessary to profit from gas sales to the West. The case of West Germany served as a good example. Because the Orenburg pipeline was not scheduled to be completed until 1979, and because Moscow had not secured funding for the Siberian pipeline, the Soviets were only piping gas to the FRG through one gasline in the mid-to-late 1970s. The amount delivered, as well as the quantity of oil exported, was insufficient to keep the USSR from accumulating trade deficits with West Germany.

Until the Soviets could send larger volumes of gas to the FRG, they needed to find another way to pay for vital West German technology. Moscow could not—and, indeed, did not—simply curtail imports. To do so would have disrupted the Soviets' ability to develop their energy resources. This was true not only for gas but also for oil. "The USSR will need substantial Western oil field technology and equipment," the CIA reported in 1977, "to stave off or slow the expected [oil] production decline."⁷⁴ How did the Soviets raise hard currency? Did Kaldor's prediction prove correct? It is to these questions that we turn our attention in the next chapter.

Assessment Center, *Contribution to "Petroleum Supply Vulnerability Assessment"*, CSI-2001-00027, September 1977, *passim*.

⁷² Kaldor, "Economic Aspects of Arms Supply Policies to the Middle East," p. 224

⁷³ Jonathan P. Stern, "Specters and Pipe Dreams," *Foreign Policy* No. 48 (Autumn, 1982), p. 24.

⁷⁴ US Central Intelligence Agency, National Foreign Assessment Center, *Contribution to "Petroleum Supply Vulnerability Assessment"*, CSI-2001-00027, September 1977, p. 16.

CHAPTER 2: SOVIET ARMS SALES TO THE NON-COMMUNIST THIRD WORLD

Structural constraints prevented Moscow from selling arms to either Eastern or Western Europe for hard currency. For the most part, trade among communist-bloc countries involved no Western currencies.⁷⁵ Eastern European nations used the Western currencies they possessed to finance purchases from Western Europe. Communist-bloc nations paid for Soviet goods not with the *deutsche mark*, *dollar*, pound *sterling*, or *franc*, but rather with the Comecon “collective currency,” the transferable *ruble*.⁷⁶ Soviet arms sales to Western Europe were impractical politically. First, such action risked the stability of the Warsaw Pact. Second, if a Western nation purchased Soviet arms, that country risked undermining NATO.

Where, then, could the Soviets sell arms for hard currency? This chapter shows that Moscow largely turned to the non-communist Third World in the late 1970s. Unlike Eastern Europe, the economic structure of non-communist Third World nations involved hard currency. In particular, oil-rich Middle Eastern nations had a plentiful supply of dollars and other Western currencies from petroleum exports to the West.⁷⁷ Soviet arms sales to the non-communist Third World, unlike potential arms sales to Western nations, also did not threaten the Warsaw’s Pact security. For these reasons, the non-communist Third World was the best place for Moscow to export weapons for hard currency.

⁷⁵ Rajan Menon, “The Soviet Union, The Arms Trade and the Third World,” *Soviet Studies*, Vol. 34, No.3. (July, 1982), p. 386.

⁷⁶ See Michael Kaser, “Soviet Trade to Europe,” *Foreign Policy*, No. 19 (Summer 1975), p. 124.

⁷⁷ Michael Brzoska and Thomas Ohlson, *Arms Transfers to the Third World, 1971-85* (Oxford: Oxford University Press, 1987), 40-42.

Although the Soviets sold arms to the non-communist Third World long before *Osthandel*, they did so in modest quantities. From 1955-1968, a period in which Moscow had virtually no hard-currency debt to Western nations, the USSR earned on average \$327.5 million per year from arm exports to the non-communist Third World. In 1969, the year Brandt came to power, the Soviets earned \$450 million. Yet, as the Soviets accumulated debt to West Germany, arms exports to the non-communist Third World increased dramatically. By 1977, as Bonn expressed worries about the Soviet debt, these exports skyrocketed to \$5.13 billion, to \$5.97 billion the next year. In 1979, Soviet earnings topped out at \$6.62 billion.⁷⁸

While the figures in the last paragraph are in actual dollars, it is important to use the constant dollar to show that the increase in Soviet arms sales to the non-communist Third World was not just a result of inflation but rather an effort by the Kremlin to sell more expensive weapons in the late-1970s. The figures in the following table use the 1979 dollar as the standard. The table shows that, with inflation factored out, Soviet weapons sales to the non-communist Third World still reached their highest levels for the decade between 1977 and 1979:

⁷⁸Figures from US Central Intelligence Agency, National Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries 1978*, ER 79-10412U, September 1979, p.2. Also, see US Central Intelligence Agency, National Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries 1979 and 1954-79*, ER 80-10318U, October 1980, p.22. The CIA is not the only body that has made estimates of Soviet arms sales to the non-communist Third World. The Stockholm International Peace Research Institute (SIPRI) also has estimates. But these are inferior to the CIA's numbers because SIPRI does not include the sale of small arms, ammunition, services, and construction.

Table 2.1: Soviet Earnings from Arms Deliveries to the Non-Communist Third World

Year	1971	1972	1973	1974	1975	1976	1977	1978	1979
Million Actual US Dollars	865	1,215	3,135	2,225	2,040	3,085	4,705	5,400	6,615
Constant Dollars in Millions (1979)	1,225	1,690	4,254	2,890	2,515	3,667	5,349	5,813	6,615

Source: For actual dollar figures, US Central Intelligence Agency, National Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries 1979 and 1954-79*, ER 80-10318U, October 1980, p.22. Figures in constant dollars converted from the actual dollars by the author.

Figure 2.1: Soviet Earnings from Arms Deliveries to the Non-Communist Third World in Million Actual Dollars

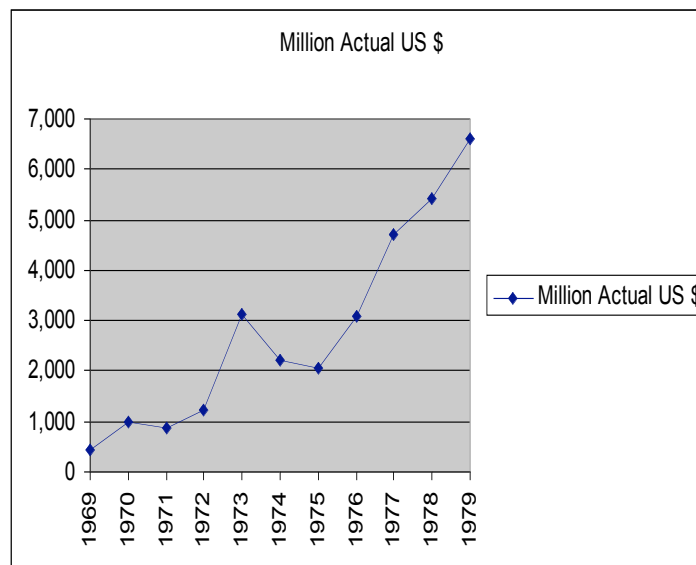
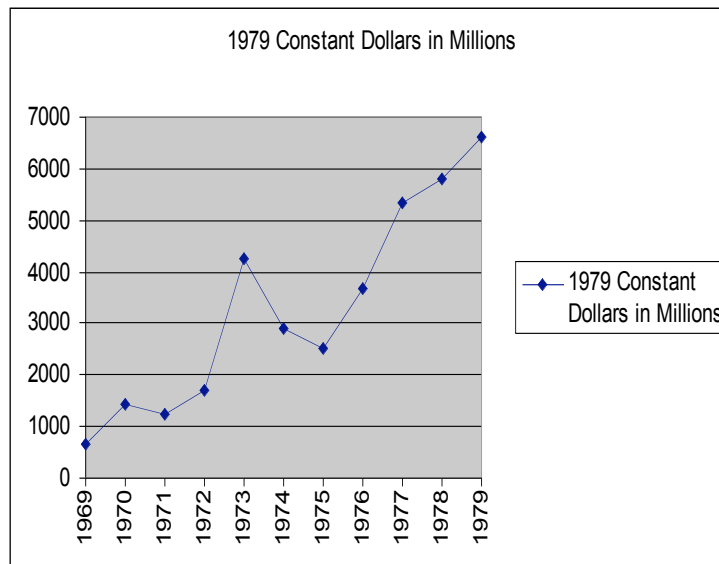


Figure 2.2: Soviet Earnings from Arms Deliveries to the Non-Communist Third World in Million Constant Dollars (1979)



Soviet arms sales to the non-communist Third World began to rise sharply in 1973. Earning hard currency to engage in trade relations with West Germany and the West partly explain this rise. It would be misleading, however, to suggest that economic considerations were the only calculations behind this increase. Soviet geopolitical motivations largely explain the high figure for 1973. During that year, the USSR sold expensive weapons to its allies Egypt and Syria, both of which fought Israel in the Yom Kippur War.⁷⁹

From 1974 to 1975, however, Soviet arms sales to the non-communist Third World actually declined. This decline resulted from a falling out between Brezhnev and Anwar Sadat over Egypt's inability to pay for arms. Egypt, which had been the USSR's

⁷⁹ US Central Intelligence Agency, National Foreign Assessment Center, *Soviet Policies on Restraint of Arms Sales to the Third World* (ER M 78-10232) April, 10, 1978. p.9.

largest Third World arms client since the 1960s, traditionally had paid for Soviet weapons over a long period of time with low interest rates. But after Egypt and Syria's loss in the Yom Kippur War, Moscow changed the rules. With new economic relations with the West, the Kremlin now demanded that Egypt pay for arms with hard currency and refused to reschedule loans. Angered by the Soviet change in policy, Sadat renounced Brezhnev and curtailed military imports from the USSR. The results were weaker total Soviet arms sales to the non-communist Third World for 1974 and 1975.⁸⁰

Because Moscow stipulated that its arms clients present their requirements for weapons a year in advance, it took time for Soviet weapons sales to the non-communist Third World to rebound.⁸¹ But Soviet arms sales did recover from 1976 onward. Largely desiring West German capital goods and funding for the Siberian pipeline, the Soviets began an effective marketing campaign to sell arms during these years. As a result, Soviet arms sales to the non-communist Third World reached an unprecedented level in 1977 and grew even more in 1978 and again in 1979.

How can we prove that obtaining hard currency to continue engaging in trade relations with West Germany was an important motivation behind the Soviets' decision to increase arms sales to the non-communist Third World? At first, it seems that this might be a hard task. After all, the Soviet leadership did not inform the Western press of its motivations for such sales. Certainly, Brezhnev would not tell the Western world that he planned to sell arms to the non-communist Third World for any reason because this would cause a firestorm on the international scene, particularly in the era of détente.

⁸⁰“Sadat Says Soviets Refused Plea for Delay on Debts,” *New York Times*, May 2, 1975; Kaldor, “Economic Aspects of Arms Supply Policies to the Middle East,” pp. 224-225.

⁸¹US Central Intelligence Agency, National Foreign Assessment Center, *Soviet Policies on Restraint of Arms Sales to the Third World* (ER M 78-10232) April, 10, 1978. p. 10.

Still, strong indirect evidence from American arms sales negotiators connects Soviet weapons sales in the late 1970s to *Osthandel* and Western trade. In December 1977, President Jimmy Carter began talks with Moscow to persuade the Kremlin to curtail its arms sales abroad. These negotiations were known as the Conventional Arms Transfers (CAT) talks. Leslie H. Gelb, the State Department's Director of Political-Military Affairs, led the negotiations for the United States.⁸² Oleg Khlestov, Chief of the Soviet Ministry of Foreign Affairs, headed up the Soviet delegation.⁸³

Yet before the talks even began, American officials were pessimistic. Paul C. Warnke, the chief U.S. negotiator of the SALT II talks, asserted that Moscow's economic concerns would impede CAT's progress. From his experience with previous negotiations, Warnke understood that economic calculations largely drove the Kremlin's weapons sales. Referring to the Soviets, he remarked that "when it comes to arms sales, you have primarily short-range considerations of an economic nature."⁸⁴

While Warnke failed to clarify further, others explored the specific economic calculations behind Soviet weapons sales. After speaking with an undisclosed "experienced official" on Soviet arms sales negotiations, *New York Times* military analyst Drew Middleton outright predicted the failure of the CAT talks. Middleton asserted that the Soviet hard-currency debt to the West was the main motivation for the Kremlin to continue arms sales to the Third World. "Moscow's resistance to any agreement with Washington," he wrote, "is primarily linked to the Soviet Union's hard currency deficits

⁸² I wrote Gelb on two occasions for an interview. But he never replied to my requests. Since he is still alive, his personal papers are not available for public viewing.

⁸³ Barry M. Blechman and Janne E. Nolan, "The U.S. Conventional Arms Transfer Negotiations" Foreign Policy Institute, School of Advanced International Studies (Washington, D.C.: John Hopkins University Press, 1987), 5.

⁸⁴ Interview with Paul Warnke, State Department, Washington D.C., June 30, 1977. National Archives II, College Park, MD. Paul Warnke Papers, Box 1, Folder R6383.

and its needs to earn foreign currencies to finance further purchase of industrial equipment.”⁸⁵ While Middleton did not mention West German trade specifically, data presented in the previous chapter shows that the Soviets relied on the FRG mostly for its Western imports of industrial equipment.⁸⁶ Middleton’s insight, then, indirectly linked Soviet arms sales to *Osthandel*.

The CAT talks failed just as predicted. “After a preliminary exchange of views,” an American participant admitted, “the two sides just read each other their position papers.”⁸⁷ The statements were general and abstract. Both sides basically agreed that arms sales to the Third World were dangerous. Unfortunately, neither the Soviets nor the Americans disclosed their motivations for arms sales. No concrete solutions were discussed either. Carter eventually called off the talks as the Afghanistan crisis began to develop in late 1978.⁸⁸

Although the views of American experts provide no “smoking gun,” much stronger evidence suggests the Soviets had economic relations with West Germany in mind in their arms sales. A comparative analysis of the payment arrangements the Soviets had with non-communist Third World nations before and after *Osthandel* created vast Soviet debts reveals a striking contrast.

Traditionally, the Soviet Union did not require hard-currency payments for arms it sold to these nations. In the 1950s and 1960s, Moscow allowed nations of the non-communist Third World to pay for weapons in their own currency with low interest rates.

⁸⁵ Drew Middleton, “Soviet Arms Sales Said to Be Increasing: Analysts Report Moscow Exporting Arms Despite U.S. Efforts to Limit Transactions,” *New York Times*, December 1, 1977.

⁸⁶ See chart on page 21.

⁸⁷ Quoted in “Again the Arms Sales Champion,” *Time Magazine*, February 13, 1978, p.3. Online Archive: www.time.com.

⁸⁸ Michael T. Klare, “Conventional Arms Sales,” *MERIP Reports*, No. 112 (February, 1983), p.4.

“Prior to 1973,” political scientist Rajan Menon writes, “Soviet arms were usually provided on credit at a 2.5 percent rate of interest with a 10-12 year amortization period.” “Repayments were made in local currency,” Menon stresses, “which the USSR then used to finance imports from the recipient.”⁸⁹ Sometimes, the USSR also set up bartering arrangements with the non-communist Third World nations to which it sold arms. Throughout the 1950s and 1960s, Moscow received partial payments for arms sales to Egypt in cotton.⁹⁰ From such arrangements, the Soviets sought to strengthen their influence and trade relations with arms clients.

But as West Germany became an important Soviet trading partner in the 1970s, the Kremlin changed its payment arrangements for arms exports. As the decade wore on, Moscow increasingly required its arms clients to pay for their purchases with hard currency. While payments in hard currency only accounted for forty percent of Moscow’s earnings from arms sales to the non-communist Third World from 1971 to 1973, this figure rose to seventy-five percent in the mid-1970s.⁹¹ During the late 1970s, as the Soviets purchased West German capital goods, the Kremlin’s desire for hard currency payments grew even stronger. “Almost all of the arms for commodities trade of earlier years,” the CIA reported in 1978, “has given way to payments in hard currency.”⁹²

In the 1970s, trade relations with West Germany were a major factor behind the Soviets’ decision to start requiring nations to pay for arms with hard currency. Before

⁸⁹ Rajan Menon, “The Soviet Union, The Arms Trade and the Third World,” *Soviet Studies*, Vol. 34, No.3. (July, 1982), pp. 381-84.

⁹⁰ See Chapter 5 “The Soviet Union and the Third World” in Harpreet Mahajan, *Arms Transfer to India, Pakistan, and the Third World* (New Delhi: Young Asia Publications, 1981), 160.

⁹¹ Figures from Wharton Economic Forecasting Associates (WEFA), cited in Robbin F. Laird, “Soviet Arms Trade with the Noncommunist Third World,” *Proceedings of the Academy of Political Science*, Vol. 35, No. 3, (1984), p. 208.

⁹² US Central Intelligence Agency, Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries*, November, 1978, p.3.

Osthandel, the Soviet Union used relatively little hard currency. After all, the USSR obtained most of its imports from satellite nations that allowed Moscow to pay for goods with the *ruble*. There was little need, then, for the Soviets to acquire hard currency to buy goods from these nations. With new economic relations with West Germany in the 1970s, however, the situation had changed.

Further evidence that hard-currency needs motivated Soviet arms sales can be seen in the nations to which the USSR provided most of its arms during the late 1970s. During this period, most Soviet arms sales were to oil-rich Middle Eastern and North African countries. Although Egypt was the largest Third World buyer of Soviet arms in the 1960s, most of the Kremlin's arms exports during that decade were to East Asia. Interestingly, of all East Asian nations, Indonesia purchased the most Soviet arms during the 1960s.⁹³ The 1970s, however, saw a decline in Soviet arms sales to relatively poor East Asia and a sharp rise in weapons sales to the Middle East and North Africa.

Table 2.2: Percentage Share of Top-Ten Largest Soviet Arms Clients in the Third World (Including Communist and Non-Communist Nations)

Rank Order	1971-75 Country	Share	Rank Order	1976-80 Country	Share
1	Egypt	28	1	Libya	23
2	Syria	26	2	Iraq	12
3	India	11	3	Vietnam	11
4	N.Vietnam	9	4	India	10
5	Iraq	8	5	Syria	9
6	Libya	7	6	Algeria	8
7	N.Korea	3	7	Ethiopia	6
8	Cuba	3	8	S. Yemen	3
9	Somalia	2	9	Peru	3
10	S. Yemen	1	10	Cuba	2
Total		97			87

Source: Michael Brzoska, *Arms Transfers to the Third World, 1971-85*

⁹³ US Central Intelligence Agency, National Foreign Assessment Center, *Soviet Policies on Restraint of Arms Sales to the Third World* (ER M 78-10232) April, 10, 1978. p.11.

In the late 1970s, when their debt was at its highest, the Soviets either began or increased arms sales to—just to name a few of the oil-rich North African and Middle Eastern countries—Libya, Iraq, Algeria, and Yemen. The USSR, which had sold Arab nations relatively cheap weapons in the late 1960s and early 1970s, now furnished these nations with expensive guided-missile boats, supersonic combat aircraft, self-propelled guns, artillery, and even helicopters.⁹⁴ The Soviet Union also provided MIG-27 fighter-bombers, SA-9 surface-to-air missiles, and T-72 tanks.⁹⁵ The more expensive the sales, the more hard currency Moscow could get in return.

Given that Libya was the largest Third World recipient of Soviet arms in the late 1970s, an analysis of Soviet-Libyan relations deserves special attention. During the early 1970s, Libyan leader Muammar Qaddafi was known in Soviet and Eastern European circles for his hatred of communism. A Bulgarian leader even referred to him once as a “notorious anti-communist.”⁹⁶ A strong belief in Arab nationalism and devout religious convictions led Qaddafi to condemn atheistic Marxism on several occasions. In 1972, Qaddafi even called the USSR “the arch enemy of the Arab world.”⁹⁷ Given Qaddafi’s ideological views, Moscow lacked economic and diplomatic relations with Tripoli in the early 1970s. The United States also had weak relations with Libya during these years because of Qaddafi’s equally intense antipathy for capitalism.⁹⁸

⁹⁴ Laird, “Soviet Arms Trade with the Non-Communist Third World,” 196; Menon, “The Soviet Union, The Arms Trade and the Third World,” 381.

⁹⁵ *New York Times*, December 15, 1980.

⁹⁶ Minutes of the Joint Meeting of the Bulgarian Communist Party Central Committee, the State Council and the Council of Ministers, on the Situation in the Middle East. Archive of the Bulgarian Communist Party, Fond 15, File 58. Accessed through CWIHP.

⁹⁷ Quoted in Muhamed El-Khawas, *Qaddafi* (Brattleboro, VT: Amana Books, 1986), 122.

⁹⁸ El-Khawas, *Qaddafi*, 119.

Aware of Qaddafi's unwavering view of communism, the Soviets lacked an ideological motivation to sell arms to the Libyan government in the mid-1970s. And while exporting weapons has often been a tool for political leverage and influence, little tangible evidence suggests that this was the main reason for Soviet arms sales to the North African nation. "The Soviet-Libyan relationship is marked by suspicion on both sides," the CIA reported in 1976 after Tripoli and Moscow signed an arms deal. "It is unlikely," the report added, "that the Soviets are counting on rapid progress toward a close coordination of policies."⁹⁹ Soviet leaders apparently understood Qaddafi's policy of non-alignment with superpowers, which was driven by the Libyan leader's strong Arab nationalist convictions. When Moscow began to sell arms to Libya in 1976, the Kremlin did not seek a friendship pact or a military alliance with Qaddafi, a highly unusual move for the Soviets.¹⁰⁰

The Kremlin wanted to sell weapons to Libya at least in part for strategic reasons. When Sadat denied Moscow access to Egyptian ports in March 1976, the Kremlin needed access to another North African port on the Mediterranean Sea for potential military operations. But the Kremlin's strategic interests in Libya never manifested. Throughout the mid-to-late 1970s, Qaddafi neither allowed Soviet warships access to Libyan ports nor did he grant Moscow a naval base on the Mediterranean Sea.¹⁰¹ From such

⁹⁹ US Central Intelligence Agency, National Foreign Assessment Center, *Soviet Military Policy in the Third World*, SC-1999-00012, October 1976, p.24.

¹⁰⁰ El-Khawas, *Qaddafi*, 119-23. In contrast to their relationship with Libya, the Soviets established a friendship pact with Egypt in 1971 before selling arms to Sadat's government. Also, Moscow established a Treaty of Cooperation and Friendship Agreement with Iraq in 1973 before selling arms to that nation's Ba'athist government.

¹⁰¹ For more information on Qaddafi's refusal to accommodate Soviet strategic interests, see Michael T. Klare, *American Arms Supermarket* (Austin, TX: University of Texas Press, 1984), 228; El-Khawas, *Qaddafi*, 122.

experiences, it does not appear that arms sales allowed Moscow to gain key strategic advantages.

Why, then, did the Soviets continue to sell weapons to Libya throughout the late 1970s? They did so largely for economic reasons. In fact, this was one of the main motivations to sell arms to Libya in the first place, according to Libyan historian Muhamed El-Khawas. Because Libya's earnings from oil exports skyrocketed in the mid-1970s, the North African nation had the financial resources to strengthen its military, a long-time goal of Qaddafi. According to El-Khawas, Moscow took advantage of this situation. Kremlin leaders thought "it would be lucrative for the Soviets to sell arms to Libya," El-Khawas writes, "which was in a position to pay in dollars." "Such transactions," he adds, "would provide the Soviets with much-needed foreign exchange to purchase Western merchandise and technology."¹⁰² Largely for this reason, it is believed, Kosygin visited Tripoli in 1975 in hopes of strengthening relations between the USSR and Libya. He succeeded. In April 1976, Sadat told the Western press that "the mental case" Qaddafi had signed a multi-billion dollar arms deal with Moscow.¹⁰³ This was the first of many deals. In July 1979, Qaddafi boasted that "Libya was buying more Soviet weapons per capita than the Shah of Iran ever bought from the U.S."¹⁰⁴

Many historians who have studied Soviet-Libyan relations in the 1970s recognize that Soviet hard-currency needs perpetuated Moscow's arms sales to Qaddafi. Michael T. Klare, an expert on arms transfers, is of this opinion. He predicted in 1984 that "Moscow will continue to supply Libya arms—for hard currency, if nothing else—but it is doubtful

¹⁰² Ibid., 123.

¹⁰³ *New York Times*, April 5, 1976.

¹⁰⁴ Quoted in Arnaud de Borchgrave, "Libya's Arms Depot," *Newsweek*, July 9, 1979, p. 43.

that the Soviet-Libyan relationship will produce other significant benefits for the USSR.”¹⁰⁵

As Moscow’s largest Middle Eastern arms client during the late 1970s, Iraq also merits special attention. Beginning in the early 1970s, Iraq made several steps toward becoming a socialist nation, including nationalizing the country’s oil firms in 1972.¹⁰⁶ By 1973, the Kremlin had established firm roots with the Iraqi Communist Party (ICP), leading two Soviet officials to remark that “important objective prerequisites for a successful struggle in Iraq of a front for revolutionary-democratic and progressive forces” had been achieved.¹⁰⁷ Around this time, Moscow began to sell arms to Iraq’s Ba’athist government.¹⁰⁸

Yet the Kremlin’s ideological interests do not adequately explain why Iraq became the Soviets’ largest arms client in the Middle East in the late 1970s. The Kremlin did not suffer from the illusion that it could turn Iraq into a communist state during these years. In the mid-1970s, the Iraqi Ba’athist government began to crack down on communism because many segments of the Shiite opposition were comprised of communists. The Ba’athists made sure the Soviets understood their position clearly. In the late 1970s, thousands of Shiite communists were executed or jailed.¹⁰⁹ Naim Haddad, a senior official of Iraq’s Revolutionary Command Council, even told the Soviets: “All Communist parties all over the world are always trying to get power. We chop off any

¹⁰⁵ Klare, *American Arms Supermarket*, 228.

¹⁰⁶ Robert O. Freeman, “Soviet Policy Towards Ba’athist Iraq,” in Robert H. Donaldson ed., *The Soviet Union in the Third World: Successes and Failures* (Boulder, CO: Westview Press, 1981), 171.

¹⁰⁷ Quoted in Roderic Pitty, “Soviet Perceptions of Iraq,” in *Middle East Report*, No. 151, p. 24.

¹⁰⁸ “Rogers Terms U.S. Arms Sales to Persian Gulf ‘Stabilizing’,” *New York Times*, June 12, 1973.

¹⁰⁹ Odd Arne Westad, *The Global Cold War: Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2005), 285.

weed that pops up.”¹¹⁰ Had Soviet ideological goals in Iraq been strong in the late 1970s, the Kremlin might have armed communist Shiites. Rather, Moscow sold expensive weapons to the anti-communist Ba’athists for hard currency.

Economic motivations, not ideological ends, largely explain Soviet interests in selling arms to the Iraqi government during the late 1970s. In the mid-1970s, Iraq’s wealth grew to unprecedented levels as oil prices quadrupled.¹¹¹ Since Iran and Iraq were in an arms race as the decade unfolded, new opportunities for the Soviets to sell arms to Iraq became available. Because the United States supplied Iran with most of its arms, the Iraqi Ba’athist leadership turned to the Kremlin. The hard-currency-hungry Soviets happily agreed, supplying the nation with expensive military aircraft. A CIA report on Soviet activities in Iraq during 1979 stated that the “Soviets earn hard currency from sales of arms” to Iraq. From this, the report concluded that Moscow “puts high priority on good relations” with the Ba’athist regime.¹¹²

Moscow did have strategic motivations to arm Iraq and its friend Yemen. After the fallout between Brezhnev and Sadat, the Kremlin looked to these nations to provide the Soviet military with bases, naval facilities, and fuel storage centers. Although Iraq had to pay for Soviet weapons with hard currency in the mid-to-late 1970s, the Ba’athist regime granted the Soviets access to naval facilities in Basra and the port city of Umm Quasr, along with several inland air bases. For selling arms to the Persian Gulf nation of

¹¹⁰ Quoted in Freeman, “Soviet Policy Towards Ba’athist Iraq,” 179.

¹¹¹ *New York Times*, October 19, 1975.

¹¹² US Central Intelligence Agency, National Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries 1979 and 1954-79*, ER 80-10318U, October 1980, p.39.

Yemen, the Kremlin also received naval access to the port city of Aden and naval refueling facilities on the island of Socotra.¹¹³

Given the association of oil with the Middle East and North Africa, the historian must address this question: could Moscow also have sold arms to Arab nations in the mid-to-late 1970s to acquire this resource for Soviet domestic consumption or for other reasons? While the Kremlin imported some oil from Iraq in the late 1970s, it did so not for Soviet domestic consumption. The USSR, as the following table shows, produced more oil than it consumed throughout the late 1970s.

Table 2.3: Soviet Oil Production and Consumption in Million Barrels Per Day

Year	Production	Consumption
1975	22.81	19.77
1976	23.93	20.95
1977	25.05	21.30
1978	26.01	22.29
1979	26.94	23.38

Source: Hewitt, *Energy, Economics, and Foreign Policy in the Soviet Union*, 3.

The Kremlin also did not acquire Iraqi oil to re-export to communist-bloc nations. According to a study by Wharton Economic Forecasting Associates, Moscow “exported 100 percent of its Persian Gulf oil for hard currency.”¹¹⁴ The East Europeans did not pay for Soviet oil with hard currency. As the *New York Times* reported, “For oil, iron ore, and other raw materials, the East Europeans pay the Russians less than world market prices, and they pay in rubles.”¹¹⁵

¹¹³ Robert Harkavy, “Strategic Access, Bases, and Arms Transfers: The Major Powers’ Evolving Geopolitical Competition in the Middle East,” in Leitenberg, *Great Power Intervention in the Middle East*, 174.

¹¹⁴ WEFA report cited in Atef A. Gewad, “Moscow’s Arms for Oil Diplomacy,” *Foreign Policy*, No. 63 (Summer 1986), p. 155.

¹¹⁵ “In Soviet Bloc, Economics Is Key to Unity,” *New York Times*, May 16, 1979.

Moscow, it turned out, had obtained Iraqi oil to sell to *the West* for hard currency. In 1979, the CIA first confirmed that the Soviets exchanged arms with Iraq for oil to re-export to the West. While stressing that Moscow mostly earned hard currency from arms sales to Iraq, the agency noted that “Iraqi supplies of crude oil enable the Kremlin to sell more oil in the West.”¹¹⁶ The CIA provided no specifics about these bartering arrangements.

Estimates suggest that the Soviets imported 5.5 million tons of crude oil from Iraq per year in the late 1970s.¹¹⁷ It is unknown how much of Moscow’s oil exports to West Germany—or to any other Western nation—came from Iraq. It should be stressed, though, that while the Soviet debt to the West rose steadily throughout the late 1970s, and while the Soviets maintained an unfavorable balance of trade with the FRG throughout these years, Soviet oil exports to West Germany did increase marginally. At the same time, total Soviet oil exports to the FRG at their highest in 1980 were only 16 percent higher than they were in 1973.¹¹⁸ Because the need for hard currency is connected to *Osthandel* and Western trade, it is appropriate to view Moscow’s interests in Iraqi oil in that light.

Although Moscow armed Iraq heavily from 1975 to 1979, the Kremlin did so not to cause war between Iraq and Iran. In the late 1970s, before the Iranian Revolution, the Soviets even sold weapons to Iran’s Shah as they provided arms to Baghdad. Throughout

¹¹⁶ US Central Intelligence Agency, National Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries 1979 and 1954-79*, ER 80-10318U, October 1980, p.39.

¹¹⁷ E.J. Feuchtwanger and Peter Naylor, *The Soviet Union and the Third World* (New York: St. Martin’s Press, 1981), 126.

¹¹⁸ Figure extrapolated from table in Jentleson, *Pipeline Politics*, 163.

1977, Moscow exported self-propelled anti-aircraft guns, BMP-1 armored personnel carriers, SA-7 Strelas and 130 MM guns to Tehran.¹¹⁹

The high figure for Soviet arms sales to the non-communist Third World in 1979, though, had nothing to do with Iran. Khomeini's government purchased no Soviet arms in 1979 and, in fact, only bought \$50 million worth of weapons from *all* nations that year.¹²⁰ "We are at war with international communism," Khomeini told the world in March 1979, "no less than we are struggling against the global plunderers of the West, headed by America, Zionism, and Israel."¹²¹

The Middle East and North Africa were not the only regions to which the Soviets sold arms. South Asian nations also purchased Soviet weapons. In most classifications of the Third World, South Asia consists of India, Pakistan, Nepal, Bangladesh, and Afghanistan. The category of East Asia, or the Far East, includes Vietnam, Laos, Thailand, North Korea, South Korea, Cambodia, Indonesia, Malaysia, and Taiwan.¹²² For very different reasons, two arms clients from South Asia were important to the Soviets in the late 1970s, non-communist India and communist Afghanistan.

Throughout the 1970s, India maintained its position as the Soviets' third largest arms client in the non-communist Third World. Moscow's geostrategic and economic interests drove Soviet arms sales to this nation. In the first half of the decade, the Kremlin sold weapons to India primarily for geostrategic purposes. During this period, Moscow wanted to prevent arch rival China from becoming the dominant force in South Asia. After the United States imposed an arms embargo on Pakistan in 1965, China became

¹¹⁹ "Confidential," 11-20-1978. National Security Archive.

¹²⁰ Brzoska, *Arms Transfers to the Third World, 1971-85*, 334.

¹²¹ Imam Khomeini, *Islam and Revolution*, trans. Hamid Algar (London: Kagan Paul, 2002) 286.

¹²² Brzoska, *Arms Transfers to the Third World*, 27-34.

Pakistan's largest arms provider from 1966-71, supplying the Muslim nation with \$133 million worth of arms. After the 1965 war between India and Pakistan, Indian and Soviet officials agreed that it was in both Delhi's and Moscow's interests to build up the Indian navy. Delhi believed a stronger navy would deter future Pakistani aggression. As the war had shown, the navy was the main weakness of India's military. By selling arms to India, the Soviets would obtain the right to place 44 divisions of Russian troops on India's border with China. This, the Kremlin believed, would impede China's growing influence in South Asia. For these reasons, the Soviets sold a wide variety of small naval weapons to India in the early 1970s.¹²³

In the late 1970s, however, economic motivations to sell arms to India became increasingly important for Moscow. A comparative analysis of the types of weapons the Soviets sold to India reveals this fact. In the early 1970s, the Kremlin sold India relatively cheap weapons, consisting mostly of small naval warcraft such as "Petya" class patrol vessels and the tiny "Osa" class missile boats. As Moscow tried to shore up hard currency from 1977 to 1979, however, the Kremlin pushed to make expensive Soviet aircraft sales to India. In March 1978, Soviet Air Force Chief Pavel Kutakhov visited Delhi to persuade the Indian government to buy Soviet MiG-23s jets.¹²⁴ While Delhi refused, the Indian government did purchase some MiG-21s. Besides aircraft, the Soviets delivered more expensive naval weapons in the late 1970s, including large Paluchat coastal patrol craft, Natya ocean mine-sweepers, "Nanuchka" class missile boats, and Il-38 "May" naval bombers.¹²⁵

¹²³Nisha Sahai Achuthan, *Soviet Arms Transfer Policy in South Asia, 1955-1981* (Delhi: Lancer International, 1988), 48-49, 69; Feuchtwanger, *The Soviet Union and the Third World*, 172.

¹²⁴Achuthan, *Soviet Arms Transfer Policy in South Asia*., 86.

¹²⁵Ibid., 84-85.

Since Afghanistan was a communist nation in the late 1970s, its weapons purchases are not reflected in the graphs on rising Soviet arms sales to the non-communist Third World. Still, given the tumultuous events it experienced during the period, Afghanistan is worthy of attention. Despite becoming a Soviet satellite nation, Afghanistan never became a major purchaser of Soviet arms. In fact, it was not among Moscow's top-ten largest Third World arms clients for the latter half of the 1970s.¹²⁶

Because Afghanistan was relatively poor, the nation's communist leadership hoped the Kremlin would supply strong economic assistance throughout 1978 and 1979. But that did not happen. "Moscow has disappointed Afghani expectations of large amounts of new financial support to the economy," the CIA reported in 1979, adding that "the major Soviet economic contribution" was "technical services and training."¹²⁷ Given Afghanistan's poverty, the Soviets did not have strong economic interests to sell weapons to this nation. According to the CIA, "Moscow's deep interest in Afghanistan" stemmed "from the realities of geopolitics, namely Afghanistan's location on the Soviet border and its nearness to two areas of Soviet interest, the Indian subcontinent and the Middle East."¹²⁸ Because hard currency earnings from arms sales to Afghanistan were unimportant for the Soviets, Moscow set up lenient repayment plans for its arms exports to the nation. Afghanistan's "repayment terms for [Soviet] credits," the CIA reported, were "exceptionally liberal." Debts were "rescheduled frequently."¹²⁹

¹²⁶ See chart on page 34.

¹²⁷ US Central Intelligence Agency, Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries*, September 1979, p. 37.

¹²⁸ US Central Intelligence Agency, Foreign Assessment Center, *Communist Aid Activities in Non-Communist Less Developed Countries*, November, 1978, p.35.

¹²⁹ Ibid.

Above all, Afghanistan demonstrates the unintended political and military consequences of Soviet economic interests in arms sales. Focused on earning hard currency from arms exports, Moscow failed to provide its communist ally with sufficient weaponry to enable Kabul to crush Mujahedin rebels throughout 1979. In March of that year, the Afghan government begged the Soviets to supply effective weapons to counter the insurgency. “Send us infantry fighting vehicles by air,” Afghan Prime Minister Nur Muhammed Taraki told Kosygin by phone.”¹³⁰ “We have decided to quickly deliver military equipment and property to you and to repair helicopters and aircraft,” Kosygin replied. “All this is for free.”¹³¹ It was, however, too little too late. According to former CIA director Robert Gates, the Americans were already providing economic and military aid to the Mujahedin.¹³²

An interesting counterfactual question arises regarding Afghanistan: had the Soviets curtailed arms sales to other nations to provide Afghanistan with sophisticated weapons early on in 1978, as Taraki’s government took hold, could the Afghan government have prevented the uprising that occurred in 1979? Because of all the variables involved, there is no way to answer this question with any degree of certainty. Nevertheless, some interesting facts need pointing out. The governments of the rich oil-producing nations to which the Soviets sold weapons during the late 1970s often used these arms to strengthen their control over the populace. The Iraqi Ba’athists, who were unpopular with the Shiite majority, prevented uprisings with the use of Soviet weapons. It

¹³⁰ Transcript of Telephone Conversation Between Soviet Premier Alexei Kosygin and Afghan Prime Minister Nur Muhammed Taraki, March 17, 1979, Moscow Russian Television Network in Russian, “Special File” Program. Accessed through CWIHP.

¹³¹ Ibid.

¹³² Robert M. Gates, *From the Shadows: The Ultimate Insider’s Story of Five Presidents and How They Won the Cold War* (New York: Simon & Schuster, 1996), 146.

is reasonable to think that, had the unpopular Afghan government likewise been adequately supplied with arms, it too might have nipped its problem in the bud long before American support of the Mujahedin. As it turned out, though, the Soviets were concerned with earning hard currency in 1977 and 1978 and only provided sophisticated weapons to those nations that could pay for them.

Of all the regions of the non-communist Third World during the late 1970s, Latin America was the least important for the Soviets with regard to economic relations and arms sales. While Kosygin announced in 1971 that the USSR planned to improve economic relations with the region, this goal never manifested. Total Soviet exports to Latin America typically only amounted to \$100-\$200 million per year throughout the decade. As the CIA revealed in a report from 1977, after the fall of Salvador Allende's regime in Chile in 1973, Latin America's private sector simply did not make purchases from the USSR. The governments, largely because of U.S. influence, were also reluctant to buy products from the Soviet Union for fear of a hostile American response.¹³³

As for arms sales, the Soviets largely failed to persuade Latin American governments to purchase weapons. "Peru has been the only Latin American country to buy Soviet hardware," the CIA reported in 1977. Peru's purchases "included SU-22 fighter-bombers, MI-8 helicopters, T-55 medium tanks, and anti-aircraft artillery as well as SA-3 and SA-7 surface-to-air missiles." The Kremlin did offer to sell arms to Argentina, Brazil, Columbia, Venezuela, and Ecuador in the late 1970s. But these nations refused the offers. Latin American nations often brought up their access to Soviet arms to get the United States to offer them weapons. A case in point was Ecuador. "Leaders in

¹³³ US Central Intelligence Agency, National Security Information, *Soviet Interests in Latin America*, RP 77-10090, April 1, 1977, pp. 3-4.

Quito are hopeful,” the CIA remarked in 1977, “that the threat of another Soviet arms client in Latin America will force Washington to come up with an arms deal.”¹³⁴

While the bulk of this chapter has addressed Soviet arms sales to the non-communist Third World, Moscow’s weapons exports to the communist Third World also deserve attention. Ideology played a minor role in Soviet arms sales to non-communist nations, but it was a major factor behind the Kremlin’s weapons exports to communist nations of the Third World.

In the late 1970s, the Soviets had ideological and strategic motivations to arm the Sub-Saharan African nation of Angola, which was mired in a civil war. In a meeting with the Marxist Angolan President in September 1977, Brezhnev voiced his strong support for the development of communism in Africa. “By building communism in their own country,” he stated, “the Soviet people are contributing to the internationalist cause of the struggle of the working people of the whole world for freedom, for mankind’s progress and for lasting peace on the earth.” More importantly, the Soviet leader remarked, the Soviet people “are also giving help and support to the People’s Republic of Angola.”¹³⁵ This consisted largely of military aid to the Popular Movement for the Liberation of Angola (MPLA).¹³⁶ Not wanting the Marxist MPLA to win the civil war, the United States provided military assistance to resistance groups, most notably the National Liberation Front of Angola (FNLA).¹³⁷

¹³⁴ Ibid.

¹³⁵ Brezhnev’s Speech in the Kremlin at a Lunch for the President of Angola, September 28, 1977, in Brezhnev, *Our Course: Peace and Socialism*, 285.

¹³⁶ US Central Intelligence Agency, National Foreign Assessment Center, *Soviet Military Policy in the Third World*, SC-1999-00012, October 1976, p.19.

¹³⁷ Westad, *The Global Cold War*, 228-233.

Of Moscow's top-ten largest arms clients in the Third World from 1975 to 1979, however, only Vietnam and Ethiopia were significant communist purchasers of arms. Vietnam became an important Soviet arms client largely because China stopped all military assistance to that nation in 1975.¹³⁸ Because Vietnam could not turn to the West for arms, the Soviet Union was the only major arms producer willing to supply Hanoi. Ideological and strategic motivations drove Soviet arms sales to this East Asian country. In 1978, the two nations signed a friendship and cooperation treaty on the basis of "Marxism-Leninism and socialist internationalism."¹³⁹ That same year Vietnam also became a member of the Council for Mutual Economic Assistance (Comecon). Such special treatment reflected Moscow's desire to have a strong ally in East Asia to counterbalance Peking's influence in the region.¹⁴⁰ To have an ideological and strategic presence in the Horn of Africa, the Soviets also honored the arms requests of Ethiopia's Marxist government, which was at war with Somalia in the late 1970s. While the United States supported Somalia, the Kremlin expressed its "solidarity with the courageous struggle of the progressive forces of Socialist Ethiopia."¹⁴¹

Still, Moscow's hard-currency needs played at least some role in arms sales to Vietnam and Ethiopia. Unlike Afghanistan and Angola, Vietnam and Ethiopia typically had to pay for Soviet arms. As political scientist Robbin Laird has remarked, the Soviet policy of requiring hard currency payments for arms "evidently applied even to

¹³⁸ Ramesh Thakur and Carlyle A. Thayer, *Soviet Relations with India and Vietnam* (New York: St. Martin's Press, 1992), 121.

¹³⁹ Quoted in Michael Leifer, "The Soviet Union in South-East Asia," in Feuchtwanger, *The Soviet Union and the Third World*, 173.

¹⁴⁰ *Ibid.*, 171.

¹⁴¹ Afro-Asian Solidarity Committee Statement, September 13, 1977, quoted in David A. Korn, *Ethiopia, The United States, And The Soviet Union* (Carbondale, IL: University of Southern Illinois Press, 1986), 38-39.

customers valued for political reasons, such as Ethiopia.”¹⁴² In 1977, the Soviets provided Ethiopia \$1 billion worth of arms “on commercial terms.”¹⁴³ While Addis Ababa and Hanoi had limited hard currency, the Soviets allowed these governments to pay for weapons with gold, which was convertible on Western financial markets. In July 1979, the Xinhua News Agency reported that the Vietnamese government had used 50 million pounds of gold “received in deposits from would-be boat people” to “buy arms from Russia.”¹⁴⁴

In the late 1970s, several calculations drove Soviet arms sales to the Third World. Depending on the recipient nation, economic, strategic, and ideological factors, or various combinations of these, figured into Moscow’s decisions to sell weapons. The Kremlin’s ideological interests were manifested most conspicuously in arm sales and even gifts of weapons to communist nations of the Third World. But these nations were not the major purchasers of Soviet weapons during this period. Rather, oil-rich non-communist countries were. While Moscow received *both* economic and strategic benefits from arms sales to Iraq, Yemen, and India, the Soviets did not always reap strategic gains from arms sales to non-communist nations. The case of Libya, by far the USSR’s largest arms client, demonstrates this fact. Yet Moscow still increased arms exports. The desire for hard currency, in the final analysis, was too tempting for the Soviets to pass up.

The final chapter of this study shows that Soviet hard currency earnings from arms sales in 1979 allowed Moscow to dramatically reduce its debt to the West by 1980. In the process, the sales played a major role in securing West German approval and

¹⁴² Laird, “Soviet Arms Trade with the Non-Communist Third World,” 197.

¹⁴³ Feuchtwanger, *The Soviet Union and the Third World*, 106.

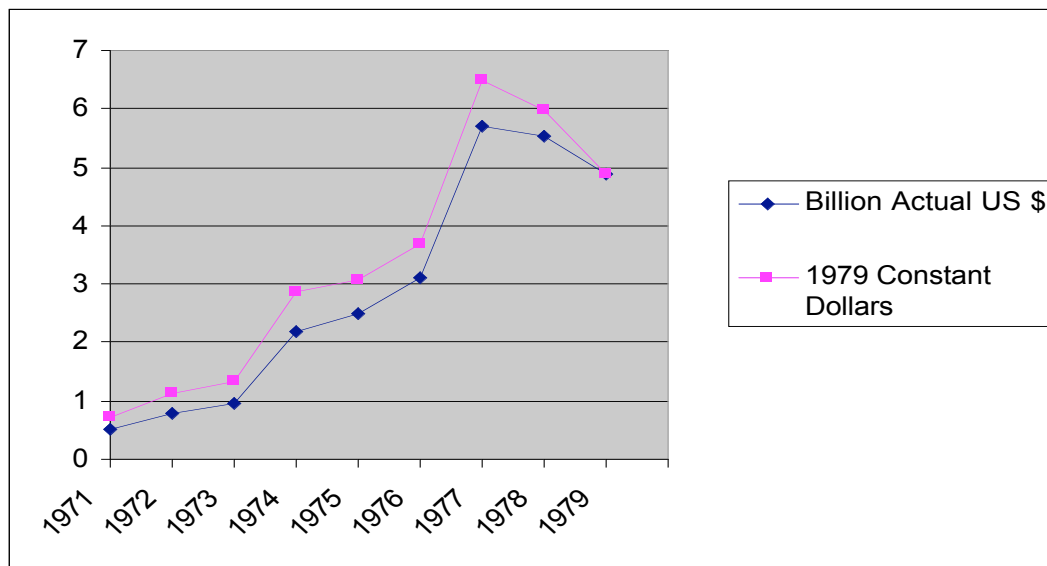
¹⁴⁴ “Vietnam Buys Soviet Arms with Boat People Gold,” *Xinhua General Overseas News Service* (London), July 30, 1979.

financing of the Siberian pipeline in 1980. But first, the effects of rising Soviet arms sales to the non-communist Third World on Soviet-American relations is examined in the chapter that follows.

CHAPTER 3: THE AMERICAN RESPONSE

Soviet arms sales to the non-communist Third World in the mid-to-late 1970s intensified the Cold War. It drew a sharp rebuke from Washington and, at the same time, led the United States to increase its own arms exports in return. Although American arms sales to the Third World climaxed in 1977 under President Jimmy Carter, these sales first began to rise sharply under President Gerald Ford. As this chapter shows, rising Soviet arms exports to the non-communist Third World, particularly to the Middle East, became Washington's *official* justification to increase American arms exports.

Figure 3.1: US Arms Sales to the Third World 1971-79



Source: FYs 1971-76: Foreign Military Sales, Defense Security Assistance Agency (DSAA), US Department of Defense, December 1980; FYs 1976-79: Foreign Military Sales, Defense Security Assistance Agency (DSAA), US Department of Defense, 1985. Constant dollars converted from the actual dollars by the author.¹⁴⁵

¹⁴⁵ The CIA does not report estimates for American arms sales. SIPRI, however, does. Unlike the CIA, though, this body fails to include small arms in their estimates. The Defense Security Assistance Agency reports the most inclusive data. For this reason, it was chosen.

From the graph, it is clear that American arms sales to the Third World dropped very little from 1977 to 1979 in terms of actual dollars. With inflation taken into account, however, the decline in weapons sales is more evident, as the values for these years in constant dollars show. This reduction resulted largely from Jimmy Carter's efforts to curb arms sales, a goal included in his broader human rights agenda. Still, sales during these years never approached the small figures of the early 1970s. Even under Carter, American arms sales to many Middle Eastern oil-producing nations grew from 1977 to 1979.¹⁴⁶ As will be shown, this rise was largely a continuation of Ford's policy of selling more arms to Middle Eastern countries to counter rising Soviet weapons sales to that oil-rich region.

While Soviet weapons sales to the non-communist Third World increased largely for economic reasons, American arms exports apparently did not. According to a recently declassified memorandum from Ford's administration, the official U.S. policy on arms sales required that "all munitions exports" be "governed by national security and foreign policy considerations, not commercial or economic factors."¹⁴⁷ This policy was in effect during the Nixon years as well.

American arms sales rose largely as a response to Soviet arms sales. While American policymakers expected the USSR to sell arms to communist nations, the Kremlin's weapons exports to non-communist nations caused alarm. In early 1973, Moscow made an arms deal with Iraq. Officials in Washington thought this deal might

¹⁴⁶ Hearings Before The Senate Committee on Foreign Relations on Proposed US Sales of Fighter Aircraft to Saudi Arabia, Egypt, and Israel, May 3-8, 1978 (Washington, Government Printing Office, 1978), passim

¹⁴⁷ Memorandum for The President from Henry A. Kissinger. Review of NSSM 139. April 19, 1975. National Archives, National Security Council Institutional ("H") Files, Policy Papers, Box H-235, Folder NSDM 175.

undermine Great Britain's alliance with Middle Eastern nations (CENTO).¹⁴⁸ Calling the Kremlin's desire to export weapons to the Persian Gulf "an invitation to trouble," Secretary of State William Rogers announced in June 1973 that the United States would sell arms to Iran. The American response, Rogers insisted, would be "a stabilizing influence for peace" in the "rich oil-producing area."¹⁴⁹ During 1973-74, Iran became the largest Third-World arms client for the United States, purchasing \$4 billion in arms. For this same period, Israel only bought \$1 billion in American weapons.¹⁵⁰ The sharp rise in American arms sales in 1974, as shown in the graph, thus was not simply an American effort to aid Israel.

Although never adopting a policy to exchange arms for oil, Washington indirectly used weapons sales to safeguard oil production. After the OPEC oil embargo of 1973, Washington needed an oil-producing friend in the Middle East. Iran was the best choice, according to this excerpt from a secret report prepared for President Richard Nixon in September 1973:

Oil is a subject very much on everyone's mind these days. The United States currently consumes 40 percent of the world's petroleum production. Our energy needs are rising at a time when our domestic production is declining. It is apparent that the United States will be compelled to import greater amounts of oil at least through the 1980s. At present, less than 5 percent of Iran's exports are to the United States. In view of the celebrated energy crisis..., Iran emerges as a secure, willing, and increasingly significant source of U.S. oil imports.¹⁵¹

¹⁴⁸The Central Treaty Organization (CENTO) was hardly a strong alliance like NATO. The United Kingdom was the only strong Western nation in it. Member nations included Turkey, Pakistan, and Iran in the 1970s. Iraq had originally been a member but withdrew in 1958. The alliance ended in 1979, but was in essence dead after Turkey invaded Cyprus in 1974. See Drew Middleton, "CENTO Pact: Demise Nears" *New York Times*, April 1, 1979.

¹⁴⁹"Rogers Terms U.S. Arms Sales to Persian Gulf 'Stabilizing'," *New York Times*, June 12, 1973.

¹⁵⁰"U.S. Arms Sales Doubled in 73-74," *New York Times*, July 10, 1974.

¹⁵¹Confidential, Presentation on Tehran, September 15, 1973, U.S. Espionage Den. v. 60:101-139, IR00831, p. 104. Accessed through the Digital National Security Archive.

The same report went on to say that the United States had begun selling expensive military aircraft to Tehran, including F-14 and F-15 jets. Iran also planned to invest in the Hawk missile defense system, the report added. “The Shah’s interest in purchasing advanced weapons remains unabated.”¹⁵²

As the table below shows, Iran was not the only oil-rich Middle Eastern nation to receive American arms. For Washington, Saudi Arabia and Jordan were important arms clients during the late 1970s as well. Asian nations such as South Korea, Thailand, and Taiwan were also significant buyers of American weapons during these years:

Table 3.1: Percentage Share of Top Ten American Arms Clients in the Third World

Rank Order	1971-75 Country	Share	Rank Order	1976-80 Country	Share
1	Iran	24	1	Iran	28
2	Israel	22	2	Israel	15
3	S.Vietnam	17	3	Saudi Arabia	9
4	Brazil	6	4	S.Korea	9
5	Taiwan	4	5	Jordan	6
6	S.Korea	4	6	Taiwan	5
7	Argentina	4	7	Egypt	3
8	Saudi Arabia	3	8	Morocco	3
9	Thailand	2	9	Thailand	2
10	Jordan	2	10	Kuwait	2
Total of ten		87			82

Source: Michael Brzoska, *Arms Transfers to the Third World, 1971-85* (Oxford: Oxford University Press, 1987).

To understand how the Saudis became such large buyers of American weapons, it is important first to examine their ally Jordan’s relations with Washington. In the early 1970s, Jordan was a relatively minor recipient of American weapons. And yet,

¹⁵² Ibid., 137.

throughout the latter half of the decade, King Hussein's government became Washington's fifth largest arms client in the Third World. The story of how Jordan became such an important recipient of American arms began in 1976. In that year, largely to prevent the Soviets from pushing arms to the nation, the United States began to sell expensive arms to Jordan. In May 1976, Soviet Air Force Commander Marshall Pavel Kutakhov visited Amman to persuade Jordan's King to buy Soviet radars and surface-to-air missiles.¹⁵³ Offended by the price of the American equivalents of these weapons, Hussein told the Western press that he might sign his nation's first arms deal with Moscow. This, of course, alarmed American officials. Not wanting to risk losing a pro-Western government to the Kremlin, Washington sought Saudi assistance to change Hussein's mind. The Americans offered to sell 2,000 Sidewinder air-to-air missiles to Riyadh just to get the Saudi government to convince Jordan to buy American weapons. The Saudis obliged in August and even granted Amman \$540 million to purchase the superior American equipment.¹⁵⁴

Such diplomacy, a strategy of Kissinger's, not only prevented Jordan from becoming a Soviet arms client but also helped Saudi Arabia again become a major American arms buyer. American-Saudi relations had deteriorated after the oil embargo. That changed, however, in 1976. As a reward for their actions in Jordan's arms dilemma, the Ford administration sold an additional \$1 billion worth of advanced hawk missiles to Riyadh.¹⁵⁵

¹⁵³“Jordan-Soviet Arms Talks Arouse Concern in U.S.,” *New York Times*, May 16, 1976.

¹⁵⁴“Jordan to Get Missile Funds,” *Washington Post*, August 1, 1976; “Saudis to Buy Hawk Missiles for Jordan,” *New York Times*, August 1, 1976.

¹⁵⁵ Anne Hessing Cahn, “United States Arms to the Middle East 1967-76: A Critical Examination,” in Leitenberg, ed., *Great Power Intervention in The Middle East*, 121.

No doubt Washington sold arms to Saudi Arabia also to keep oil prices in check. “It is Saudi Arabia that has prevented further increases in crude oil prices this year,” the Assistant Secretary for Near Eastern Affairs, Alfred Atherton, told Congress in September 1976. Having been summoned by Congress to explain arms sales to Riyadh, Atherton informed the body that the Ford Administration had also sold the oil-rich nation 1,500 Maverick missiles, which he insisted would be used “to defend the kingdom against external aggression.”¹⁵⁶ By the end of 1976, approximately 12,000 American personnel were in Saudi Arabia promoting, repairing, and maintaining American-made arms.¹⁵⁷

When Moscow halted arms exports to Egypt in March 1974 because of that nation’s inability to pay for weapons, new opportunities for American arms sales to Sadat’s government arose. In April of that year, the Egyptian leader told the Western press that he wanted to buy weapons from the United States, noting Brezhnev’s failure to deliver arms. A week after Sadat’s claim, Kissinger reported that the Egyptian leader had not sought American weapons. The issue of arms sales to Egypt, the Secretary of State announced, “has not been formally raised by the Egyptian government,” and “we don’t expect it to be raised in the future.”¹⁵⁸

In reality, Sadat tried to coerce Moscow into selling arms to Egypt by flaunting the possibility of acquiring weapons elsewhere. When the Egyptian leader discussed arms with the Western press, Sadat always stressed reconciliation with the Kremlin. “I would

¹⁵⁶ Statement by Alfred L. Atherton, Jr., Assistant Secretary for Near Eastern and South Asian Affairs, submitted to the House Committee on International Relations, September 27, 1976, in *State Department Bulletin* Vol. LXXV, No. 1957 (Washington, Government Printing Office, 1976), 476-77.

¹⁵⁷ Anne Hessing Cahn, “United States Arms to the Middle East 1967-76: A Critical Examination,” in Leitenberg, ed., *Great Power Intervention in The Middle East*, 121.

¹⁵⁸ “Secretary Kissinger’s News Conference of April 26,” *State Department Bulletin*, Vol. LXX, No. 1821 (Washington D.C.: Government Printing Office, 1974), 542.

greatly welcome a situation,” he told the *New York Times*, “where we and the Soviet Union could sit together and discuss everything frankly.”¹⁵⁹ As the decline in Soviet arms to Egypt in the coming years showed, though, Moscow was simply unwilling to export weapons to this nation in part because of payment concerns. Given that Libya and Egypt were increasingly becoming foes in the mid-1970s, the USSR also likely did not want to give its new largest arms client a cause for concern by selling weapons to Sadat.

During the mid-1970s, the United States never became Egypt’s largest supplier of arms. Given Egypt’s past aggression toward Israel, politicians largely opposed weapons sales to the North African nation. While Washington did sell a few F-5E’s jets to Egypt in 1976-77,¹⁶⁰ the United States, as the following table shows, only supplied 17 percent of Egypt’s total arms from 1975-79. The Soviets supplied 17 percent as well. France became the North African nation’s most important arms supplier during these years.

The Middle East and North Africa were not the only regions in which Moscow and Washington engaged in an arms race in the mid-1970s. South Asia was another. As the Kremlin supplied India with naval weapons in 1975, Washington lifted its ten-year arms embargo against Pakistan. Appearing on the NBC show *Meet The Press*, Under Secretary of State for Political Affairs Joseph Sisco specifically stressed Soviet weapons deliveries to India as the reason for Washington’s lifting the embargo.¹⁶¹ The Ford Administration’s move, of course, angered Indian policymakers. A week before the embargo was lifted, Indian Foreign Minister Y.B. Chavan warned that American arms

¹⁵⁹Quoted in “Sadat Chides Russia on Arms Supply,” *Washington Post*, April 19, 1974.

¹⁶⁰ See “Presidential Interview” in *State Department Bulletin*, April, 1978, 22.

¹⁶¹“10 Year U.S. Ban on Pakistan Arms Will Halt Today,” *New York Times*, February 24, 1975.

sales to Pakistan would “revive old misgivings about the United States’ role in the region.”¹⁶²

To appease India, Kissinger and Ford decided to sell weapons to both nations. After the 1971 war, Washington had instituted an arms embargo on India as well. Given the fallout over potential arms sales to Pakistan, President Ford felt obligated in March 1975 to issue the following directive:

As reflected in the public announcement of February 24, 1975, I have decided to lift the embargo on US sales of lethal military equipment to Pakistan and India. The US government...should be as responsive as possible to requests for the sale of defense articles and services which will meet the legitimate security needs for modern and effective forces in Pakistan and India....Sales of US military equipment to Pakistan and India will be on a cash basis only.¹⁶³

Not much should be made, however, of American arms sales to India or Pakistan in the mid-to-late 1970s. After all, neither nation was among Washington’s top-ten largest arms clients in the Third World. But the lifting of the arms embargo did reflect the Ford Administration’s fear that the Kremlin was using arms sales to stir up trouble.

As the Soviets provided arms to Angola during 1976, Washington countered with arms sales to Zaire. Among the most vocal critics of Soviet arms deliveries to Angola was Ford’s Secretary of Defense, Donald Rumsfeld. “There are those in today’s world who do not share our belief in the self-determination of others,” he remarked in reference to the Soviets. Yet, on the very same day, Rumsfeld hinted that the United States would sell arms to Zaire in response.¹⁶⁴

¹⁶²“India Cautions U.S. Against Resuming Arms Supplies to Pakistan,” *New York Times*, February 18, 1975.

¹⁶³ US Military Supply Policy to Pakistan and India, Secret, National Security Memorandum, March 24, 1975, Presidential Directives, (PR00234), National Archives, College Park, MD.

¹⁶⁴ Quoted in *New York Times*, June 18, 1976.

During 1975 and 1976, arms sales became a contentious issue in American politics. In October 1975, Thomas Stern, Deputy Director of the Bureau of Politico-Military Affairs, told Congress that some Americans “are troubled” by “seeing their country in the arms supply business.”¹⁶⁵ The *Christian Science Monitor* added that government agents were “hustling” for “new contracts with the approval of the Federal Government.”¹⁶⁶ Congressman John McClellan (D-AS) warned that weapons sales were of “such magnitude” as to affect America’s “own defense capabilities.”¹⁶⁷ Jewish Americans and Israelis “feared” possible American arms sales to Egypt.¹⁶⁸

Against this backdrop, former Georgia Governor Jimmy Carter took up arms sales in his Presidential campaign. If elected, he promised to curtail military exports to the Third World. Carter’s position immediately drew a sharp rebuke from Secretary of Defense Rumsfeld. The Secretary warned that Carter exhibited “a dangerously superficial understanding of fundamental geopolitics” and stressed that curtailing weapons exports risked Israel’s security.¹⁶⁹

Irritated by Rumsfeld’s criticism, Carter began asserting that Ford had failed to arm Israel sufficiently and instead had sold too many weapons to Arab states. It was inexcusable, the candidate pointed out, that the United States exported more arms to Saudi Arabia and Iran than to Israel.¹⁷⁰ Ford fought back, stressing that American arms sales to the Middle East were necessary to keep the Soviets from gaining hegemony in the region. Referring to Carter’s goal of curtailing weapons sales, the President asked,

¹⁶⁵ Quoted in “Congress Eyes Arms Sales Abroad,” *Christian Science Monitor*, February 27, 1975.

¹⁶⁶ “U.S Arms Sales Rise Cause Capital Concern,” *New York Times*, October 19, 1975.

¹⁶⁷ Quoted in “U.S Arms Sales Rise Cause Capital Concern,” *New York Times*, October 19, 1975.

¹⁶⁸ “Israelis Fear Possible U.S. Sale of Arms to Cairo,” *Christian Science Monitor*, March 5, 1976.

¹⁶⁹ “Senator Dole Attacks Jimmy Carter on Arms Sales Views,” *Washington Post*, September 10, 1976.

¹⁷⁰ “Some Major Differences,” *New York Times*, October 8, 1976.

“Does the gentleman want Soviet arms to have a monopoly in the world? Does he want our adversaries to not only arm the radical Arabs but also the more moderate Arabs?”¹⁷¹

In public, Ford refrained from mentioning American dependence on foreign oil as a calculation in arming Middle Eastern nations. Apparently, there was more political capital in defining the situation as a US-Soviet conflict.

Once he became President, Carter did not immediately curtail arms sales. “The people in the White House now realize there are valid reasons for selling arms,” a White House official told *Aviation Week & Space Technology* in April 1977.¹⁷² National interests, it turned out, kept arms sales to the Third World going. Since most Soviet arms went to Middle Eastern nations, the United States in response stepped up arms sales to these nations to strengthen governments and thereby safeguard oil production.¹⁷³ In effect, the Carter Administration continued Henry Kissinger’s policy of using arms to gain friends and influence global events.¹⁷⁴ According to a study by the Brookings Institute, the Carter Administration, a few months after the President condemned international arm sales in May 1977, sent Congress forty-five requests to authorize \$4.1 billion in arms sales to many Third World countries, including Egypt and Saudi Arabia. According to the study, less than ten percent of these sales were requested for NATO nations.¹⁷⁵ While Carter had promised to curtail arms transfers, his first year as president

¹⁷¹Quoted in *Washington Post*, September 16, 1976.

¹⁷² Quoted in Michael T. Klare “Carter’s Arm Sales: Business As Usual” *Social Scientist* Vol. 7, No. 4 (November, 1978), p.6.

¹⁷³ Klare first put forth the idea that national security was the “major obstacle to reduced arms sales” during Carter’s presidency. See his article “Carter’s Arm Sales: Business As Usual” for more information, particularly pp. 11-13.

¹⁷⁴ For more information on Kissinger’s policy, see Leslie H. Gelb “Arms Sales” *Foreign Policy* No. 25 (Winter 1976-1977), pp. 4-5.

¹⁷⁵*Washington Post*, July 17, 1978

saw the single highest quantity of American arms exports to the Third World for the entire decade of the 1970s.

When asked about the high number of arms sales for 1977, Carter frequently attributed the rise to commitments made by his predecessor.¹⁷⁶ Ford, the President insisted, had committed arms sales to Saudi Arabia and Egypt, and Carter claimed he was simply honoring those commitments:

Later, in the Ford Administration in 1976, in the fall, a commitment was made... to send Defense Department officials to Saudi Arabia, to give them some assessment of the characteristics of the F-15's and F-16's, with a commitment then made that they would have their choice between the 16's and the 15's. When Prince Fahd came to our country last spring, I repeated this commitment, that had been made by my own predecessors in the White House, and so the sale of F-15's to Saudi Arabia is consistent with the commitment also made in the fall of 1975 and repeatedly reconfirmed. The sale of the F-5E's—a much less capable airplane, by the way—to the Egyptians is, I think, a very legitimate proposal, because Egyptians in effect have severed their supply of weapons.¹⁷⁷

Still, American arms sales to the Third World dropped slightly starting in 1978. How this happened is an interesting story. The President did not curtail arms sales to the Middle East in general. Rather, he increased arms sales to Egypt, Israel, and Saudi Arabia in 1978, authorizing \$4.8 billion to sell fighter jets to all of these nations.¹⁷⁸ In reality, Washington reduced total American arms sales to the Third World in 1978 and 1979 largely through one action: curtailing arms sales to Iran. The Iranian government's total imports of arms in 1977, mostly through American sales, were valued at \$4.7 billion. In

¹⁷⁶ "Security Assistance: Conventional Arms Transfer Policy" in *Department of State Bulletin*, April 1978, p. 42.

¹⁷⁷ "Presidential Interview," *Department of State Bulletin*, April, 1978 p. 22

¹⁷⁸ *Wall Street Journal*, February 15, 1978.

1978, the number fell to \$2.1 billion. In 1979, as Khomeini came to power, Iran imported a measly \$47 million worth of arms from *all nations*.¹⁷⁹

By the summer of 1977, Carter had grown reluctant to sell arms to Iran's Shah because of Tehran's human rights abuses. In his memoir, the President asserts that the Shah's secret police, SAVAK, "was brutalizing Iranian citizens."¹⁸⁰ As a warning to Iran, Carter withdrew a proposal to sell \$1.2 billion worth of AWACs to the Shah in July. The following excerpt from Carter's diary shows that the President's action irritated the Shah:

The Shah of Iran sent an angry message to me...that because of the one-month delay in presenting the AWACS proposal to Congress, he was thinking about withdrawing his letter of intent to purchase these planes from the United States. I don't care whether he buys them from us or not.¹⁸¹

While Carter did present the proposal to Congress, his own party blocked it. "I'm happy," Rep. Gerry E. Studds (D-MA) told the *Washington Post*. "The President may not think so, but I think it's a victory for his policy."¹⁸² The Shah never received his AWACS.

In retrospect, the President's National Security Adviser, Zbigniew Brzezinski, has argued that Carter's human rights agenda should not have been applied to Iran in the manner it was. "Carter's efforts to make the Shah more responsive was a step in the right direction," Brzezinski writes in his memoir, "but it came at a time when the basic problems of Iran were beginning to get out of hand and the structure of authority was

¹⁷⁹ Figures in table taken from Michael Brzoska and Thomas Ohlson, *Arms Transfers to the Third World, 1971-85* (Oxford: Oxford University Press, 1987), 324-26. For the sharp decline in total arms imports from Iran in 1978-79, see p 334.

¹⁸⁰ Jimmy Carter, *Keeping the Faith: Memoirs of A President* (New York: Bantam Books, 1982), 434.

¹⁸¹ Dairy excerpt, July 31, 1977 in Carter, *Keeping the Faith: Memoirs of A President*, 434.

¹⁸² "Carter Defers Iran Sale," *Washington Post*, July 29, 1977.

beginning to crack.”¹⁸³ The Shah faced growing opposition from religious fundamentalists, and he was also becoming terminally ill with cancer.

That American arms sales to the Third World decreased slightly during 1978 and 1979 because of fewer weapons exports to Iran raises an important question: could the dramatic rise in Soviet arms sales to the non-communist Third World during these same years have in part resulted from more Soviet arms sales to Iran? While the Soviets certainly tried to sell more weapons to Tehran in 1978, they were unsuccessful. According to a recently declassified State Department document, Iranian officials “were very unhappy with the quality and effectiveness” of the Soviet military training that accompanied Moscow’s arms sales to Iran in 1977. As a result, the Iranians refused to purchase any more Soviet arms. “Iran made no new arms purchase agreements with the Soviet Union during 1978,” the State Department reported.¹⁸⁴

Again in 1979, Moscow sold no weapons to the new Iranian government that came to power. Often, nations are reluctant to export arms to governments that have been in power for a short time. After all, one does not know if these regimes will continue to hold onto power or not. That developed nations were simply unwilling to sell weapons to Iran in 1979 largely explains why that country only imported approximately \$50 million worth of arms from *all nations* that year. In the end, since the reduction in American arms sales to the Third World is largely a result of a sharp decline in U.S. weapons sales to Iran, and since the Soviets did not fill the shoes of the United States in Iran, the sharp rise

¹⁸³Zbigniew Brzezinski, *Power & Principle: Memoirs of the National Security Adviser, 1977-81* (New York: Farrar, Straus, Gironx, 1983), 397.

¹⁸⁴“Confidential,” State Department, November 20, 1978.

in Soviet arms sales to the Third World during the late-1970s cannot be reduced to new opportunities to sell arms resulting from American reluctance to do so.

In the final analysis, Washington used rising Soviet arms sales to the non-communist Third World as justification to increase American arms exports in return. Safeguarding Middle Eastern oil production, documents show, largely drove American arms sales to oil-exporting nations in the mid-to-late 1970s. This in no way means, however, that American policymakers had little justification for concern about Soviet actions in the Middle East. Even if Soviet motives for arms sales were largely economic, the results of these sales were strategic as well. Given American dependence on OPEC oil, Washington would not risk letting the USSR become a strong friend of Middle Eastern countries. The last thing the United States needed was Moscow, on a whim or in some fit of rage, pressuring these nations to curtail oil exports to the West or to raise petroleum prices.

Besides the obvious issue of oil, the Marxist-Leninist ideology to which Moscow adhered required capitalist nations to be enemies. Despite détente and improved relations with the West, neither Brezhnev nor his cohorts abandoned this belief. For this reason, if nothing else, American decision-makers had to be cautious of any Soviet involvement in the affairs of other nations, including arms sales.

Because Iraq, Iran, Angola, and Ethiopia were all involved in military conflicts in the early 1980s, it is tempting to blame the Soviet Union and the United States in part for supplying weapons used in these wars. The reality of the situation, however, is complicated. Sometimes, it is not a superpower's decision to increase arm sales, but rather its decision to *curtail* them, that actually produces war. The decline in American arms exports to Iran helped make the Iran-Iraq war possible, as it enabled the Iraqi government to think that it

could at last defeat its larger neighbor. This undoubtedly was a calculation in Iraq's decision to invade Iran in September 1980.¹⁸⁵ Still, there can be no doubt that the Soviets and the Americans bear some responsibility for the deaths that arose from their weapons sales. These nations, after all, supplied arms that made killing efficient.

¹⁸⁵ US Central Intelligence Agency, Foreign Assessment Center, *Soviet Interests, Policies, and Prospects With Regard to the Iran-Iraq War*, NN3-263-094-007, December 1980, pp. 6-8.

CONCLUSION: THE PIPELINE IS BUILT

As 1980 rolled around, the Soviet Union had paid off much of its hard-currency debt. While the Kremlin's total hard-currency debt to Western industrialized nations (including governments and commercial banks) stood at \$16.2 billion in early 1979, it had dropped to \$10 billion a year later.¹⁸⁶ As this chapter shows, unprecedented arms sales to the non-communist Third World in 1979 was a *major* factor in reducing Soviet debt. By decreasing their debt, the Soviets achieved their goal of securing West German approval and financing of the Siberian pipeline.

Before dealing with the pipeline or West Germany in particular, it is first important to understand how the Soviets reduced their debt to the West as a whole. The Iranian Revolution of 1979 presented the Soviets with new opportunities to profit from oil exports to the West. As Khomeini came to power, an energy crisis ensued in the United States and Western Europe. Throughout the year, Iran curtailed oil exports to the West by two million barrels-per-day.¹⁸⁷ While Saudi Arabia and other OPEC nations increased oil sales to offset Iran's oil production decline, Western Europe and the United States still experienced panic.

Against this backdrop, Soviet profits increased from oil exports to the West. In 1979, Moscow did not export more oil to the West than it did in 1978. In fact, exports dropped from 1.60 million barrels-per-day in 1978 to 1.48 million barrels-per day in 1979. Nevertheless, the Soviets earned much more in 1979 because oil prices

¹⁸⁶ Newnham, *Deutsche Mark Diplomacy*, 189.

¹⁸⁷ Figure from "BBC Summary of World Broadcasts," BBC, October 23, 1979. Accessed through British Broadcasting Cooperation website: www.bbc.uk.

skyrocketed. In 1978, the Soviets earned \$7.8 billion in hard currency from oil exports to the West compared to \$13.5 billion in 1979.¹⁸⁸

Although the Soviets earned more from oil and even natural gas exports to the West in 1979 because of the energy crisis, these exports do *not* explain the sharp reduction in Soviet debt. An analysis of Moscow's balance of trade with Western nations in 1979 reveals this fact. Despite *all* Soviet exports to the West that year, the USSR *still accumulated a \$2.01 billion trade deficit* with the West.¹⁸⁹ Soviet earnings from Western trade, including oil and natural gas sales, did *not* cover the costs of Moscow's imports from the West for that year.

How, then, did the Soviets reduce their debt to the West? The first place to look is the Kremlin's gold sales during 1979. While Soviet hard-currency earnings from gold sales are not included in trade data, they must be addressed in any meaningful analysis of Soviet debt. Unlike the *ruble*, Soviet gold was convertible on Western financial markets. In 1979, Soviet hard-currency earnings from gold reached a record high. While the Soviets earned on average \$1.5 billion in hard currency annually from gold sales throughout the 1970s, they earned \$2.2 billion in 1979.¹⁹⁰ The high earnings from gold in the last year of the decade cancelled out the Soviet debt from trade deficits to the West that year, leaving \$200 million in hard currency to spare.

A \$200 million hard-currency surplus, though, hardly explains how the Soviet debt to the West dropped from \$16.2 billion to \$10 billion from 1979 to 1980. Another

¹⁸⁸ Figures from Ed. A. Hewitt, *Energy, Economics, and Foreign Policy in the Soviet Union* (Washington: Brookings Institute, 1984), 155.

¹⁸⁹ Gerhard Fink, *East-West Economic Relations Now and in the Future* (Vienna: Springer-Verlag, 1985), 50.

¹⁹⁰ *The Soviet Union 1980-81: Domestic Policy, The Economy, Foreign Policy*, Volume 6, (New York: Holmes & Meier Publishers, 1983), 127.

factor largely accounts for the difference. In 1979, Moscow earned approximately \$6 billion in hard currency from arms sales to the non-communist Third World. If one does the arithmetic, it is easy to see that this was the *major* factor in reducing the Soviets' debt to the West.

One might argue, though, that the data mentioned in the preceding paragraphs fails to take into account Soviet hard-currency earnings from (1) trade with Eastern Europe and (2) the Kremlin's non-military exports to Third World nations.

Unfortunately, the exact amount of hard currency the Soviets earned from these sources is unknown. Still, it is safe to say that Moscow earned very little hard currency from either its exports to Eastern Europe or from its non-military exports to the Third World. "The major portion of Soviet trade conducted with socialist and developing countries," Rajan Menon reported in the journal *Soviet Studies*, "does not, for the most part, involve hard currency." As for Soviet trade with the non-communist Third World, the only commodity for which the Soviets required hard-currency payments was arms.¹⁹¹ In December 1979, the British periodical *The Economist* reported that "Russia's exports of manufactured goods account for only a fraction of its total exports to hard-currency countries."¹⁹²

Although Bonn in the mid-1970s was reluctant to finance the larger pipeline, the West German mindset had changed by 1980. Now it was evident that the Soviet Union could pay down debts. While Moscow owed the West German government DM 13.8 billion (\$5.9 billion) in 1976, by 1980 the Kremlin owed Bonn only DM 4.1 billion (\$2.3

¹⁹¹ Rajan Menon, "The Soviet Union, The Arms Trade and the Third World," *Soviet Studies*, Vol. 34, No.3. (July, 1982), p. 386.

¹⁹² "The Giant Grows Sluggish" *The Economist*, December 29, 1979, p.31.

billion).¹⁹³ Schmidt could no longer look Brezhnev in the face and tell him that Soviet debt was the major obstacle to West German approval of the pipeline.

By 1980, West German policymakers had their own interests in a new pipeline. The 1979 energy crisis had made it clear that Bonn needed to reduce its dependence on OPEC oil.¹⁹⁴ Soviet natural gas, Helmut Schmidt believed, was a viable alternative. For this reason, he and Brezhnev held formal talks in June 1980 to discuss the construction of the Siberian pipeline. Having paid down their debt to the West in general, the Soviets hoped to sell natural gas not only to West Germany but also to France, Italy, the Netherlands, and Belgium.¹⁹⁵ The German periodical *Der Spiegel* estimated that the proposed pipeline, if constructed, could deliver forty billion cubic meters of natural gas annually by 1984.¹⁹⁶

Schmidt and Brezhnev at last reached an agreement in November 1980. Schmidt and Brezhnev agreed that West Germany would provide the Soviet Union with the pipes and turbines, as well as DM 10 billion, to construct the 3,000-mile pipeline.¹⁹⁷ This pipeline would link the Urengoi gas fields in Siberia to the city of Uzhhorod in the Ukraine. Bonn did not want the pipeline running through East Germany out of fear that the communist leadership there might, in a political crisis, turn off the valves. Brezhnev

¹⁹³Jochen Bethkenhagen and Heinrich Machowski, "Entwicklung und Struktur des deutsch-sowjetischen Handels und seine Bedeutung für die Volkswirtschaft der Bundesrepublik und der Sowjetunion," (Berlin: May 1982), cited in Angela E. Stent, "Technology Transfer to the Soviet Union" Working Paper #24, Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik (April 1983), p. 62.

¹⁹⁴ *The Economist*, November 29, 1980; Anthony J. Blinken, *Ally Versus Ally: America, Europe, and the Siberian Pipeline Crisis* (New York: Praeger, 1987), 32.

¹⁹⁵ *Der Spiegel*, June 23, 1980, p. 29.

¹⁹⁶"Diskret Geklart: Punktlich zur Kanzlerreise steht das Konzept für das bisher prchtigste Geschäft der deutschen Industrie mit den Sowjets" *Der Spiegel*, June 23, 1980, p. 29.

¹⁹⁷"Pandora's Pipeline," *The Economist*, November 29, 1980, p.49.

praised the agreement. In a later interview with *Der Spiegel*, he remarked that “Germany is today the leading trading partner with the Soviet Union among Western nations.”¹⁹⁸

As Brezhnev and Schmidt were about to sign the agreement, *The Economist* first laid out its details to the Western world. The periodical questioned the ramifications of Bonn’s dependence on Soviet gas:

Is it sensible for the West Germans to near-double their dependence on the Soviet Union for natural gas, from about 16% now to 30% of their needs in four or five years' time? Under a deal about to be signed, West Germany will provide the pipes, the turbines and much of the money to bring the gas more than 3,000 miles from Siberia. The gas will then be pumped into a grid to boost supplies not only to West Germany but also to France, Italy, Ireland and Belgium, and later perhaps to Spain, Greece and Sweden. All this makes it probably the biggest contract ever negotiated between eastern and western Europe.¹⁹⁹

Indeed, several nations signed contracts with the Soviet Union to receive gas from the pipeline. As the largest recipient, West Germany would receive 10.5 BCM of gas annually. France, the second largest recipient, would get 8 BCM per year, and Austria 1.5 BCM. Spain, Holland, and Belgium did not sign a contract for gas, although each left open the possibility of doing so at a later time.²⁰⁰

The new Reagan administration strongly opposed the construction of the pipeline, fearing that it would make Western Europe, and West Germany in particular, dependent on Soviet natural gas. In 1980, West Germany derived 17.5 percent of its total gas consumption from Soviet natural gas. The German Institute for Economic Development estimated that this number would rise to 30 percent by 1990.²⁰¹ Reagan also thought the pipeline would enable the Soviets to earn hard currency to engage in military

¹⁹⁸ Quoted in *Der Spiegel*, November 2, 1981, p. 35.

¹⁹⁹ “Pandora’s Pipeline,” *The Economist*, November 29, 1980, p.49.

²⁰⁰ Jonathan P. Stern, “Specters and Pipe Dreams,” *Foreign Policy* No. 48 (Autumn, 1982), p. 23.

²⁰¹ See Table III in Herbert Wulf, “East-West Trade As a Source of Tension,” *Journal of Peace Research* Vol.19 No. 4 (1982), p.317.

adventurism abroad. In November 1981, he banned American companies from participating in the pipeline's development.²⁰²

The chaotic events in Poland in December 1981 strengthened Reagan's resolve to halt the development of the gasline. Washington blamed Moscow after General Wojciech Jaruzelski's government cracked down on Solidarity and declared martial law that month. Specifically, government officials argued that the Kremlin had violated the Helsinki Final Act of 1975 by supporting martial law. Secretary of State Alexander Haig typified this mentality. Claiming that Moscow "has conspired with the Polish military authorities" to deprive Poland "of the right to choose and develop [its] political, social, economic, and cultural systems," Haig sharply criticized the Kremlin in Madrid on February 9, 1982 for violating Principle I of the Helsinki Accords.²⁰³

Yet Reagan, unlike Carter, was unwilling to impose economic sanctions on the USSR. In response to the Soviet invasion of Afghanistan, Carter had imposed a grain embargo on the Soviet Union in January 1980.²⁰⁴ Given the restrictions on selling American high technology to the USSR already in place, the grain embargo was the only meaningful economic sanction Carter had. Reagan thought this embargo hurt the American wheat farmer and had campaigned on the promise that he would lift it if elected, a promise he carried out.²⁰⁵

While Reagan did not impose sanctions on the USSR for the Polish crisis, he tried to persuade Schmidt's government to do just that. Schmidt denounced the American

²⁰²Prepared Statement by the Assistant Secretary of State for Economic and Business Affairs, Robert D. Hormats, Before the Senate Banking, Housing, and Urban Affairs Committee, November 12, 1981, in *American Foreign Policy Current Documents 1981* (Washington: State Department, 1984), 423-427.

²⁰³ Secretary of State Alexander Haig's speech before the Conference on Security and Cooperation in Europe (CSCE) in Madrid, Spain, February 9, 1982.

²⁰⁴Alexander Haig, *Caveat: Realism, Reagan and Foreign Policy* (New York: McMillan, 1984), 111.

²⁰⁵"Lifting the Grain Embargo to the Soviet Union," Secretary of State Haig's Remarks on June 2, 1981 in *American Foreign Policy Current Documents 1981* (Washington: Government Printing Office, 1984), 578.

request and steadfastly refused to apply sanctions. “We should not punish ourselves with sanctions,” he remarked, “because there are developments in Eastern Europe which one cannot accept.” “We need the gas,” the Chancellor added.²⁰⁶ Reagan’s action also angered the Kremlin. “The Polish problem has been chosen as a pretext to implement in the international arena” an “imperialist policy,” Soviet official Igor Krymov warned, calling it a “policy of confrontation with the socialist world.”²⁰⁷

Gas was not the only thing Schmidt needed. The early 1980s was marked by rising unemployment in the FRG. In 1977, West Germany’s unemployment rate was 3 percent. By 1982, it had risen to 7.7 percent. “The pipeline contract was dictated by pure misery,” a West German economics ministry spokesman later told the *Wall Street Journal*, stressing that “jobs were the main consideration.”²⁰⁸

Angered by Schmidt’s refusal to apply economic sanctions, Reagan, in an unprecedented move, banned the export of any American technology to *Western European nations* that he believed could be incorporated into machinery to run the pipeline. This action, of course, angered Bonn. In a speech before the Bundestag in June 1982, Schmidt not only called the extraterritorial application of the American policy “illegal” but also said he would continue building the pipeline even if it were delayed because of a scarcity of American-licensed equipment.²⁰⁹ In an even bolder move, Schmidt announced in July that Bonn had signed an agreement to finance a staggering eighty-five percent of the costs for the pipeline.²¹⁰

²⁰⁶ Quoted in Claudia Wormann, *Osthandel als Problem der Atlantischen Allianz: Erfahrungen aus dem Erdgas-Rohren-Geschäft mit der UdSSR* (Bonn: Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik E.V., 1986), 149.

²⁰⁷ Krymov quoted in “Siberian Gas Pipeline: Slave Labour Story ’Poppycock,’” BBC, October 20, 1982.

²⁰⁸ Quoted in Jentleson, *Pipeline Politics*, 188.

²⁰⁹ *Christian Science Monitor*, June 25, 1982.

²¹⁰ “West Germans Grant Soviets Pipeline Loan,” *Washington Post*, July 14, 1982

Despite the ban on American equipment, the United States did provide software to run the pipeline's turbines. While the Soviets constructed the pipeline in the summer of 1982, Reagan had quite a surprise in store for them. Unbeknownst to Moscow, Reagan ordered the CIA to sabotage the pipeline by selling faulty technical equipment. Former Air Force Secretary Thomas Reed first revealed this in 2004. "In order to disrupt the Soviet gas supply, its hard-currency earnings from the West, and the internal Russian economy," Reed writes, "the pipeline software that was to run the pumps, turbines, and valves was programmed to go haywire, after a decent interval, to reset pump speeds and valve settings to produce pressures far beyond those acceptable to pipeline joints and welds." "The result," he adds, "was the most monumental non-nuclear explosion and fire ever seen from space."²¹¹ The explosion severely damaged the pipeline in the summer of 1982. Such sabotage, however, did not deter Moscow's and Bonn's desire to get the pipeline working.

In October 1982, Washington's hard-line stance against the pipeline caused much bickering when the U.S. Department of Commerce restricted technology exports to four West German firms involved in the pipeline's construction: AEG-Kanis; Mannesmann; Essener Hochdruck-Rohrleitungsbau GMBH; and Kocks Pipeline Planung GMBH. "This action is not punitive," Commerce Secretary Malcolm Baldrige remarked, "but was taken with the purpose of facilitating investigation of suspected violations of President Ronald Reagan's sanctions against European companies selling U.S.-licensed equipment for the Soviet pipeline."²¹²

²¹¹ Quoted in "Analysis: The Recurring Fear of Russian Gas Dependency" Radio Free Europe/ Radio Liberty. Accessed through the web at: www.rferl.org/

²¹² Quoted in "US Bans Exports to 4 German Firms," *Reuters*, October 6, 1982. Accessed through Lexus Nexus.

Surprisingly, the loudest critic of Reagan's policy was not Schmidt but the President's friend Margaret Thatcher. She deemed Reagan's behavior hypocritical. Because General Electric could not legally export rotors to the British firm John Brown, Thatcher complained that John Brown could not honor a \$160 million contract to provide turbines for the pipeline. The Prime Minister told *Newsweek* : "Look, we stick to our deals. Now will you please understand this, especially as, after all, you in the United States are going to deliver wheat to the Soviet Union?"²¹³ After Reagan refused to change his policy, Thatcher remarked that "we have been wounded by a friend."²¹⁴

In a new move, the Reagan Administration tried to drain Western Europe's enthusiasm for the pipeline by asserting that Russian "slave labor" was involved in its construction. "There is clear evidence," a State Department official told Senator William Armstrong, "that the Soviet Union is using forced labor on a massive scale." Noting that the Soviets have employed "four million forced laborers" on "domestic pipeline construction" in the past, the official suggested that Moscow would continue to employ such labor.²¹⁵

The British were dismissive of such allegations. The BBC called the American talk of forced labor "poppycock." The Americans were bound to claim next, one British journalist joked, that "Afghani freedom fighters" provided the labor. The following parody of a three-way conversation between Reagan, National Security Advisor Richard Allen, and Secretary of Defense Caspar Weinberger reveals British perceptions that the slave labor story was contrived.

²¹³ "Backdown On The Pipeline," *Newsweek*, September 13, 1982, p. 33.

²¹⁴ "British May Fill Pipeline Order Despite Ban," *Christian Science Monitor*, October 1, 1982.

²¹⁵ Letter from the Assistant Secretary of State for Congressional Relations, J.J. Moore, to Senator William Armstrong, November 4, 1982 in *American Foreign Policy Current Documents 1982* (Washington: Government Printing Office, 1985), 686-87.

Reagan: You know, Caspar, that slave labour pitch was a lousy idea in the first place.

Weinberger: I know it was Ron, but it was Richard's not mine.

Allen: What do you mean, I never gave you that idea.

Weinberger: Look, I didn't say Richard Allen, I meant Richard (Pipes).

Allen: Well, you should have said so.

Reagan: OK boys, calm down. I want something productive. Caspar?

Weinberger: Well, maybe we could bring Poland into the picture.

Reagan: How do you react to that Richard?

Allen: Negative. I like the idea of child labour. That always gets a reaction.²¹⁶

Change only came when Brezhnev died on November 10, 1982. Four days later, Reagan lifted the pipeline embargo against the Soviet Union.²¹⁷ The President's action was a gesture of good will towards the new Soviet leader, Yuri Andropov. Western Europe, in general, praised Reagan's action. After arguing with Western Europe for almost a year over the pipeline embargo, a nasty episode had come to an end. The Reagan Administration, however, got its allies in Western Europe to agree to a compromise: no European nation would import more than thirty percent of its total gas from the Soviet Union.²¹⁸

In July 1983, the Kremlin announced that the gasline was complete. At minimum, the *New York Times* reported, the Soviets would earn \$3.9 billion per year from gas sales

²¹⁶“Siberian Gas Pipeline: Slave Labour Story ‘Poppycock’,” BBC, October 20, 1982; “Allegations about Use of Prisoners on Gas Pipeline Refuted,” BBC, October 19, 1982; Parody in “Siberian Gas Pipeline: Western Attempts at ‘Character Assassination,’” BBC, September 29, 1982. Accessed through British Broadcasting Corporation website: www.bbc.uk.

²¹⁷ George Schultz, *Turmoil and Triumph: My Years As Secretary of State* (New York: Charles Scribner's Sons, 1993), 142.

²¹⁸ Yergen, *The Prize*, 743.

from it alone.²¹⁹ Despite all the obstacles it had faced in the previous three years, the Siberian pipeline was by year's end at last sending natural gas to West Germany and Western Europe. Had he lived to see the project completed, Brezhnev would have been proud.

The Siberian pipeline, largely financed by the West German government,²²⁰ allowed the Soviets to do something they had been unable to do during the 1970s: obtain a strong favorable balance of trade with West Germany during 1984 and 1985. From 1981 to 1982, before the pipeline's completion, the USSR had a small favorable balance of trade with the FRG as well. During these years, Soviet oil exports to the West dropped.²²¹ Nevertheless, the Soviets achieved a favorable balance of trade with the FRG in part because the smaller Orenburg pipeline had been completed. The USSR only obtained a strong positive balance of trade, though, once the Siberian pipeline was in service. This is reflected in the figures for 1984-85 in the following table:

Table 4.1: Soviet Trade with West Germany in DM Millions 1980-1985

Year	1980	1981	1982	1983	1984	1985
Total Soviet Exports to the FRG	7517.4	9224.8	11357.7	11788.4	14391.6	13629
Total Soviet Imports from the FRG	7943.2	7621.4	9395	11244.8	10766.8	10527
Soviet Balance of Trade with West Germany	-425.8	1603.4	1962.7	543.6	3624.8	3101.3

Source: Statistisches Bundesamt Wiesbaden: Fachserie 7

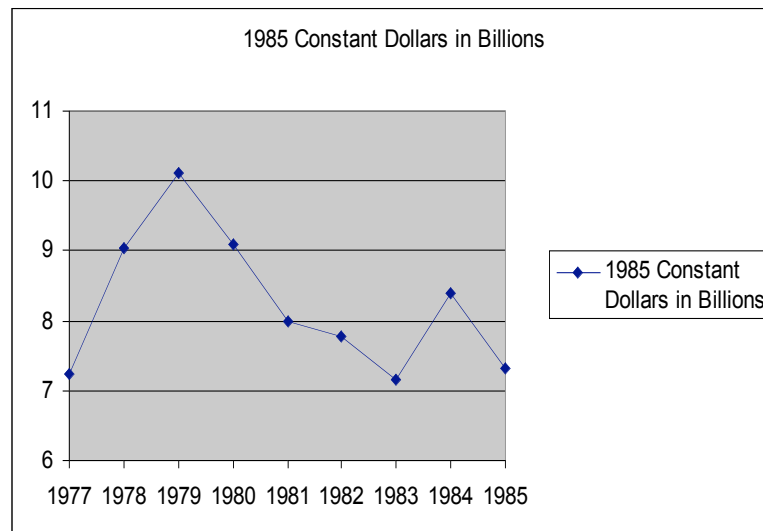
²¹⁹ "Progress for Soviet Pipeline," *New York Times*, July 29, 1983.

²²⁰ The West German government signed an agreement to finance eighty-five percent of the pipeline's construction, see "West Germans Grant Soviets Pipeline Loan," *Washington Post*, July 14, 1982. Once the pipeline was built, its total estimated cost was \$10 billion. For more information, see "Progress for Soviet Pipeline," *New York Times*, July 29, 1983.

²²¹ Hewitt, *Energy, Economics, and Foreign Policy in the Soviet Union*, 155.

The construction of the Siberian pipeline did not make the Soviet hard-currency debt to the West grow. In fact, as Randall Newnham has pointed out, the USSR maintained a hard-currency debt of approximately \$10 billion from 1980 to 1984.²²² Because the price of oil and natural gas remained high, the Kremlin kept its debt in check largely through energy exports. With strong profits from energy sales, Moscow had less economic motivation to export arms to the Third World. The Soviets, as the following graph shows, sold fewer weapons during the early 1980s, a period that actually saw a stronger demand for arms among war-torn nations such as Iraq and Iran.²²³

Figure 4.1: Soviet Earnings from Arms Sales to the Third World (Including both Communist and Non-Communist Nations)



Source: SIPRI data reproduced in Brzoska, *Arms Transfers to the Third World*, 326-27.²²⁴

²²² Newnham, *Deutsche Mark Diplomacy*, 189.

²²³ US Central Intelligence Agency, Foreign Assessment Center, *Soviet Interests, Policies, and Prospects With Regard to the Iran-Iraq War*, NN3-263-094-007, December 1980, pp. 6-8.

²²⁴ Unfortunately, it does not appear that the CIA has released Soviet arms sales figures to the non-communist Third World for the 1980s. Since SIPRI has released figures for Soviet arms sales to the Third World, they are used here. It should be noted, though, that this body does not make a distinction between the communist and the non-communist Third World. Unlike the CIA, SIPRI data also only includes “major arms exports.” Small arms are not included.

This chapter so far has presented a rosy picture of Soviet foreign trade in the mid-1980s. But, one might ask, did the USSR not experience economic hardships during these years? “Virtually everyone seems to think,” historian Stephen Kotkin writes, “that the Soviet Union was collapsing before 1985.” “They are wrong,” he points out.²²⁵ While it is an overstatement to suggest that the Soviet economy was collapsing, there is no question that it was declining. During the 1970s, Soviet industrial growth had risen on average by 6.0 percent annually, a very respectable rate. From 1980 to 1983, growth was much more modest, rising on average by 3.6 percent per year.²²⁶

The decline in Soviet industrial growth during the early 1980s did not mean that Brezhnev and Kosygin’s “import-led” strategy had been a failure. Rather, the drop stemmed from a shortage of labor and lax discipline. The long-term demographic effects of World War II came to a head in Brezhnev’s last years. The Soviet birth rate sharply declined in the 1950s and 1960s partly because of the huge death toll from the Great Patriotic War. Most of the workers who survived the war were leaving the workforce in the early 1980s, and their jobs were not being filled.²²⁷ As Soviet economist Grigori Khanin writes, there was “an increasing excess of the number of workplaces over the number of workers.”²²⁸ Lax discipline and poor oversight exacerbated this problem.

Feigning sickness was so common that the average Russian missed work ten days per

²²⁵ Stephen Kotkin, *Armageddon Averted: The Soviet Collapse, 1970-2000* (Oxford: Oxford University Press, 2001), 1.

²²⁶ Figures from Hewitt, *Energy, Economics, and Foreign Policy in the Soviet Union*, 170.

²²⁷ Menon, “The Soviet Union, The Arms Trade and the Third World” p. 385. For an extended discussion of the labor supply problem, see Cynthia Weber and Ann Goodman, “The Demographic Policy Debate in the USSR,” *Population and Development Review*, Vol. 7, No. 2 (June 1981), pp. 279-95. Also see US Central Intelligence Agency, Foreign Assessment Center, *The New Direction of Soviet Demographic Policy*, NF81-10012, November 1981.

²²⁸ Michael Ellman and Vladimir Kontorovich, *The Disintegration of the Soviet Economic System* (New York: Routledge, 1992), 76.

year from illness *alone*.²²⁹ While Stalin had shown that it was possible to increase industrial growth even with a shortage of labor, no Soviet leader in the early 1980s was willing to impose the discipline required to do so. Times had changed, and the Kremlin no longer resorted to such drastic measures as executing citizens for quota failures. With the shortage of labor and lax discipline, it was hard for industrial production to grow rapidly. Even the capital goods and efficient steel-producing technologies acquired through *Osthandel* could do little to fix this situation.

The collapse of the Soviet economy, a topic beyond the parameters of this study, resulted largely from Gorbachev's unsuccessful domestic reforms during the late 1980s.²³⁰ Still, Soviet trade with the West played at least some role in the economic decline of the USSR. In 1986, world prices for oil dropped from \$30 per barrel to \$9 and remained low for the next several years.²³¹ Given the corresponding drop in gas prices, Soviet earnings from energy exports to the West sharply declined. As a result, from 1986 until the fall of the Soviet Union, the USSR again had an unfavorable balance of trade with West Germany and most Western nations in general.

While *Osthandel* enabled Moscow to achieve a temporary favorable balance of trade with West Germany in the early-to-mid 1980s, it was a source of debt for the Soviets for the greater part of its history. West German exports and credit to the USSR during the early 1970s were sources of Soviet hard-currency debt. Yet, by the mid-1970s, Moscow needed continual West German exports and credit to further modernize Soviet

²²⁹Ellman and Kontorovich, *The Disintegration of the Soviet Economic System*, 262.

²³⁰ For more information on the Gorbachev years, see David A. Dyker, *Restructuring the Soviet Economy* (New York: Routledge, 1992); Michael Ellman and Vladimir Kontorovich, *The Destruction of the Soviet Economic System: An Insider's History* (Armonk, NY: M.E. Sharpe, 1998); *The Disintegration of the Soviet Economic System* (New York: Routledge, 1992).

²³¹ "OPEC Price Agreement Called Tough Test of Will," *Reuters*, December 26, 1986; Newnham, *Deutsche Mark Diplomacy*, 190.

industries and to develop and transport Soviet energy resources. In part to pay down its debt, Moscow resorted to increased arms sales to the non-communist Third World in the mid-to-late 1970s. It was through these arm sales that Moscow raised sufficient hard currency to pay down the Soviet debt by 1980 and to acquire West German financing of the Siberian pipeline. Yet it was also through these arms sales that the USSR provoked increased American arms sales to the Third World in return.

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