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File Folder [USSR:] MEMORANDA TO THE PRESIDENT FROM
ROBERT C. MCFARLANE (1)

FOIA

1997-066/13

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16

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
23140	MEMO	MCFARLANE TO PRESIDENT RE ATTACHED PAPERS ON SOVIET UNION R 6/17/2010 M125/1; UPHELD 11/4/2010 F97-066/13 #23140	2	10/16/1985	B1
23141	REPORT	GORBACHEV'S DOMESTIC AGENDA PAR 11/4/2010 F1997-066/13	4	ND	B1 B3
23142	REPORT	RE SOVIET ECONOMY PAR 11/4/2010 F97-066/13; UPHELD M284 #23142 6/9/2015; R 8/31/2018 M125/1 #23142	6	ND	B1 B3
23143	REPORT	RE FOREIGN TRADE IN USSR ECONOMY PAR 11/4/2010 F1997-066/13; UPHELD M284 #23143 6/9/2015	9	ND	B1 B3
23144	MEMO	MCFARLANE TO PRESIDENT RE ATTACHED PAPERS ON SOVIET UNION R 6/17/2010 M125/1	2	10/25/1985	B1
23145	REPORT	RE WARSAW PACT PAR 11/4/2010 F1997-066/13	5	ND	B1 B3

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MEMORANDA TO THE PRESIDENT

FROM ROBERT C. McFARLANE

MEMORANDA FOR THE PRESIDENT

FROM ROBERT C. McFARLANE

- Tab 1: Papers on the Soviet Union: Gorbachev's Domestic Agenda
October 16, 1985
- Tab 2: Papers on the Soviet Union: The Soviet Union in the World
October 25, 1985
- Tab 3: Study on U.S. - Soviet summits, 1972 - 1979
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- Tab 4: Papers on the Soviet Union: The Soviet View of National
Security
November 4, 1985
- Tab 5: Papers on the Soviet Union: The Soviet View of the United
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- Tab 6: Papers on the Soviet Union: Gorbachev and his Geneva Agenda
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- Tab 7: What to Expect from Gorbachev in Geneva
November 14, 1985

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

October 16, 1985

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT C. MCFARLANE *RM*

SUBJECT: Papers on the Soviet Union: Gorbachev's Domestic Agenda

You have previously read three groups of papers on the Soviet Union. They dealt with the sources of Soviet behavior, the problems of Soviet society, and the instruments of control. The attached group looks at Gorbachev's domestic agenda, focusing particularly on economic concerns.

Gorbachev's domestic priorities can roughly be divided into three categories: consolidating his power, restoring public confidence, and revitalizing the economy. He has moved quickly in the first two areas, concentrating first and foremost on getting his people in key positions. By July, after only four months in office, he had already appointed more new people to the Politburo than either of his two immediate predecessors. This process is still underway.

To help restore public confidence in a leadership which had become tainted with corruption in Brezhnev's declining years, Gorbachev has vigorously carried on the anti-corruption drive begun under Andropov and supplemented it with an anti-alcohol campaign. In addition, he has carefully tailored his public appearances and meetings with the Soviet man-in-the-street to give the appearance of knowing and caring about the life of the average citizen.

Revitalizing the economy may well be the toughest challenge of them all - and if he does not succeed, he will be unable in the long run to restore public confidence in the Soviet leadership. Gorbachev has begun by replacing long-tenured, complacent bureaucrats in the Party's Central Committee and in the Council of Ministers. Only recently, on September 27, TASS announced the removal of the Council's Chairman, Nikolay Tikhonov, and his replacement by Gorbachev protoge Nikolay Ryzhkov.

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BY RW NARA DATE 6-17-00

Such personnel changes mean more in the Soviet context than they would in a market economy. The Soviet economy is a centralized, command economic system in which the Politburo acts much like the board of directors of an enormous conglomerate. The Council of Ministers runs a huge government bureaucracy which sets specific output goals, determines wages and prices, allocates manpower and regulates incentives.

Personnel changes alone, however, are not likely to revitalize an economy plagued by low industrial productivity, declining efficiency of investment, rising consumer expectations, inefficient agriculture, and an outdated technological base. Gorbachev has publicly spoken of the need to "re-equip" the economy with technologically up-to-date machinery. This will require sharp increases in investments in machinery production. Gorbachev is likely to reveal further details of his economic thinking when he unveils the 12th five year economic plan at the Party Congress in February.

In financial terms, East-West trade is a relatively small factor in the Soviet economy, with the notable exception of Soviet imports of Western grain. The USSR continues to be the single largest buyer of grain from the United States. Soviet machinery imports, however, come largely from the East bloc, and in return the Soviets provide Eastern Europe with raw materials, particularly oil. The single greatest factor limiting Soviet purchases in the West remains Moscow's chronic lack of hard currency. Legal and illegal acquisition of advanced Western technology, however, is critically important to modernizing the Soviet technological base, particularly in the military area - which traditionally has absolute precedence over civilian industry.

Recommendation

OKNo

That you read the attached papers as background for your upcoming meeting with Gorbachev.

Attachments:

Tab A	Gorbachev's Domestic Agenda
Tab B	The Soviet Economy in Perspective
Tab C	USSR: The Role of Foreign Trade in the Economy

Prepared by:
Jack F. Matlock

GORBACHEV'S DOMESTIC AGENDA

Since coming into office four months ago, Mikhail Gorbachev has made rapid progress toward what historically has been every new party chief's foremost goal--the expansion of his political power. He is also off to an excellent start on another high priority task--the reinvigoration of the party and state apparatus. Much more, however, remains to be done to realize his most difficult domestic tasks--the acceleration of Soviet economic growth and the improvement of quality and performance throughout the Soviet economy.

I. Expanding and Consolidating Power

Gorbachev has initially concentrated on expanding and consolidating his political power. To realize the full potential of his office, the General Secretary must enjoy the active support of other members of the ruling Politburo and be master of the Secretariat, the party's principal executive agent.

In April, Gorbachev engineered the promotion of three of his closest allies--Yegor Ligachev, Nikolay Ryzhkov, and KGB chief Viktor Chebrikov--to full Politburo status. In July, he ousted erstwhile rival Grigoriy Romanov from the Politburo and Secretariat and elevated Georgian party boss Eduard Shevardnadze to full Politburo membership. Shevardnadze was then quickly appointed Foreign Minister. Former Foreign Minister Andrey Gromyko was promoted to the largely ceremonial post of head of state.

After only four months in office, Gorbachev has already engineered a greater number of promotions to the Politburo than either Yuriy Andropov or Konstantin Chernenko.¹ He has also appointed as many party secretaries² as were named during Andropov's entire fifteen months in office.

¹ Under Andropov three officials--Geydar Aliyev, Mikhail Solomentsev, and Vitaliy Vorotnikov--became full Politburo members and Chebrikov was given candidate member status. There were no promotions to the Politburo during Chernenko's tenure.

² Ligachev, Ryzhkov, and Romanov became party secretaries under Andropov. There were no promotions to the Secretariat under Chernenko.

Despite this impressive display of power, there are hints that Gorbachev does not enjoy the unqualified support of all his Politburo colleagues. In a speech in Leningrad in May, for example, Gorbachev criticized the Politburo for being too timid in making a recent decision on agriculture. His criticism suggested that he had favored a bolder approach to the question. There also have been some unusual delays in the publication of major Gorbachev speeches--another possible indication of leadership disagreement. If Gorbachev's policies are indeed encountering opposition, the remaining members of the Brezhnev "old guard" are the most likely sources. Both former Premier Nikolay Tikhonov and Moscow city party boss Viktor Grishin are rumored to have opposed Gorbachev's accession to power.

II. Rebuilding Public Confidence

Rebuilding public confidence in the leadership and in officialdom is one of Gorbachev's major objectives, and he has skillfully tailored his public appearances and his media image to this end. He takes great care to orchestrate his meetings with the public, giving the appearance of knowing and caring about the life of citizens.

In addition, he has continued Andropov's anti-corruption drive and supplemented it with the anti-alcohol campaign. The uniformed police have been bolstered by a new political administration, and some 55,000 party members have been assigned to the police. While the results cannot be measured, there is evidence that Soviet officials are now far more careful about bribe-taking or other illicit activities. Accounts of arrests and massive sweeps of rural areas, however, suggest that priority has now shifted away from corruption to the anti-alcohol campaign. In any event, despite significant public approval for the struggle against drinking and corruption in principle, Gorbachev faces a long, difficult struggle before he can claim significant results in either area.

III. Revitalizing the Economy

A. Shaking Up the Party and State Apparatus

Gorbachev has also set himself the formidable task of reinvigorating the party and state apparatus through the replacement of long-tenured and complacent bureaucrats, including members of the Party's Central Committee. People on the Central Committee occupy critical posts in the party and state machinery; without their energetic support Gorbachev's domestic policy initiatives would be nothing more than paper proposals.

During the 1970s, Brezhnev's policy of cadre stability--a reaction to the frequent, often capricious personnel changes of the Khrushchev years--gave the members of the Central Committee a virtual guarantee of lifetime tenure. The resulting complacency and inertia contributed to a decline in economic growth and a rise in corruption.

Andropov launched a major campaign to replace incompetent and corrupt officials. His efforts, however, were cut short by his death. Under Chernenko, a champion of the Brezhnev old guard, personnel turnover slowed.

Gorbachev has picked up where Andropov left off. He has already replaced three heads of Central Committee departments, who play a major role in overseeing domestic policy, and appointed new party chiefs in the Georgian republic and Leningrad. The leadership of thirteen other regional party committees has also changed hands--more than during Chernenko's entire tenure.

Gorbachev has devoted particular effort to replacing poor performers among economic officials in the Council of Ministers. A deputy premier and ten ministerial-level officials have been replaced, several after humiliating public criticism. And only last week, on September 23, Tass announced that the Chairman of the Council of Ministers, Nilokay Tikhonov, had resigned -- allegedly for reasons of poor health.

Still, some of the most powerful bureaucratic posts remain in the hands of Brezhnev-era holdovers whose approach to their assignments is the antithesis of Gorbachev's activism. Nikolay Baybakov, for example, Chairman of the State Planning Committee (Gosplan) is an elderly Brezhnev-era holdover likely to oppose change in his powerful bureaucratic empire. Until he and many others like him are removed from their posts, they are likely to obstruct Gorbachev's campaign to transform the creaking state machinery into an engine for change.

B. Improving Performance

Even sweeping personnel changes, however, will not be enough to achieve the most difficult domestic goals that Gorbachev has set--the acceleration of Soviet economic growth and higher standards of quality and performance throughout the Soviet economy. Gorbachev has acknowledged that this will require a long-term effort.

The centerpiece of Gorbachev's economic strategy is a call for re-equipping Soviet factories and farms with state-of-the-art machinery--an effort that will require a major increase in investment in the machine building sector. He apparently recognizes that previous attempts to shift investment resources have been frustrated by entrenched bureaucratic interests. To avoid such problems he has indicated that a reorganization of the economic bureaucracy will be a major part of his strategy.

Gorbachev is also banking on a stepped-up labor discipline campaign to bolster economic growth while waiting for the more long-term benefits of his modernization program and his organizational changes. He is using the threat of penalties for poor performance and a pledge to increase material rewards for good performance, to encourage better labor productivity.

Gorbachev's economic strategy has much to recommend it. Increased investment in the machine building sector is long overdue and the economic apparatus is badly in need of change. The outlook for his critically important industrial modernization program, however, is problematical. Implementation would require a degree of innovation in manufacturing that historically has been lacking. In addition, there is the risk that stepped-up investment in machinery manufacturing could divert resources from consumer and defense industries to an extent the regime would find unacceptable. Moreover, the increasing inaccessibility of domestic oil, coal and iron ore could hamper prospects for achieving high growth targets.

Gorbachev's achievements in expanding his power and in at least partially reinvigorating the party and state machinery should enhance his chances of pressing through with his economic program, but will not guarantee the program's success. Like previous Soviet party chiefs, he may discover that bureaucratic obstructionism, though it may yield for a time, tends to reemerge.

FOIA(b)(3)

Prepared by:

██████████ CIA and
Donald Graves, Department of State

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THE SOVIET ECONOMY IN PERSPECTIVE

The Soviet economy, the second largest in the world, has grown since 1950 from about one-third to more than one-half the size of the US economy. The basic tenets of Soviet growth strategy have been:

- o a high rate of investment in heavy industry, fuels and power, and construction; a lower rate in consumer goods and agriculture;
- o emphasis on modern, capital-intensive technology in the favored sectors; use of old-fashioned, labor intensive methods in the low priority sectors;
- o large expenditures on education and science to raise the technical skills of the population;
- o acquisition of advanced Western technology and equipment in exchange for raw materials.

Making and Implementing Economic Policy

This is a "command economy". Basic economic decisions are made by central administrative fiat rather than in the market place:

- o The Politburo of the Communist Party makes the major economic decisions.
- o A huge bureaucracy -- headed by the Council of Ministers -- sets specific output goals, allocates manpower and materials, fixes wages and prices, and regulates incentives.
- o Lower down, state-owned industrial facilities and collective farms translate the economic plans into action.

The Politburo -- the highest executive arm of the Central Committee of the Communist Party -- acts much like the board of directors of an enormous conglomerate. As chairman of the board, General Secretary Gorbachev presides over weekly Politburo meetings where decisions on general economic priorities are reached. It is the Politburo that decides on the division of resources between military and civilian use and the distribution of investment between industry and agriculture.

The Council of Ministers -- the government's highest executive body -- can be likened to a senior management team

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of the conglomerate. The new Chairman of the Council, Nikolay Ryzhkov, has final responsibility for determining the output of all major commodities, distributing resources, and ensuring that plans are fulfilled. The organization under the Council includes the State Planning Committee (Gosplan), more than 50 functional economic ministries (such as ferrous metallurgy, foreign trade, and agriculture), and a host of state committees and main administrations concerned with finance, prices, supply, and the like. The State Planning Committee is now working on the Twelfth Five-Year Plan for 1986-90.

Strengths

The Soviet economy has great crude economic strength, based on a wealth of natural resources, a labor force half again as large as that of the United States, a large and growing stock of industrial facilities, and an unchallenged leadership dedicated to continual expansion of industrial and military might. Growth has been maintained by the brute force method of allocating about one-third of national output to investment and by extracting as large a work force as possible out of the populace. This growth formula has enabled the Soviets to amass an ever increasing arsenal of sophisticated weapons, to continually expand their industrial base, and to provide some increase in living standards each year.

Weaknesses

A number of persistent problems that have plagued the Soviet system for years have become particularly troublesome since the mid-1970s.

- o Low productivity and the declining efficiency of investment. Despite a growing volume of investment per worker, labor productivity in Soviet industry is only about half the US level. This is particularly serious since annual additions of men and equipment are becoming smaller, and productivity gains must be the future source of growth. An added difficulty is the gradual exhaustion of easily accessible natural resources and the rising cost of exploiting new resources, many located in remote and frozen areas of Siberia.
- o Technology gap. Although the latest technology is employed in some areas -- particularly in the defense and space industries -- technology in the civilian economy generally lags far behind that of the West. The Soviet system is particularly ineffective in moving new ideas and products from the research and development stage into full assembly-line

production. Moreover, Western equipment frequently is not as productive in a Soviet setting as it is on native ground. At the same time that the USSR is struggling to catch up, the United States, Western Europe, and Japan are forging ahead with still newer technology.

- o Rising consumer expectations. Though well-fed and clothed compared with past generations, Soviet consumers are increasingly aware of the disparity between Soviet and Western living standards. Consumer grievances are especially acute as to housing, long queues, and the poor quality of durables and other consumer goods and services.
- o Inefficient agriculture. Nearly one-fifth of the labor force is still employed on the farm; equipment is badly operated and maintained; and the cost of producing grain and meat is far above world market prices.

Most of these problems are rooted in the Soviet system of planning and management, which is too centralized and clumsy for effectively managing the increasingly complex economy. Central planning, for example, becomes more difficult as the number of links between producers, consumers, and suppliers multiplies.

The Soviet incentive system is especially ill-equipped to deal with today's problems. Although it was effective in maximizing physical output in the 1950s and 1960s when resources and raw materials were cheap and readily available, in recent years it has led to industrial bottlenecks, encouraged waste and mismanagement of resources, contributed to irrational investment decisions, retarded scientific technological innovation, and stimulated widespread corruption and illegal economic activity.

As a result of these weaknesses, Mikhail Gorbachev inherited a decade-old economic slowdown punctuated by harvest failures, industrial bottlenecks, labor and energy shortages, low productivity, and declining efficiency of investment. Part of the problem has been the result of external factors:

- o Harsh weather conditions that have depressed farm output.
- o Declining increments to the working age population that have led to labor shortages.
- o Rising costs and increasing difficulty of extracting and transporting energy resources and other raw materials, which have

exacerbated the squeeze on labor and capital resources and intensified the impact of bottlenecks already present in key sectors of the economy.

But the key source of the USSR's economic slowdown -- as Gorbachev himself has implied -- is systemic: existing methods of planning and management are more and more incapable of coping with a modern economy.

Economic Prospects Under Gorbachev

Since coming to power in March 1985, Gorbachev has moved forcefully to place his personal stamp on economic policy, telling managers that they must change the way they do business or "get out of the way". His frankness illustrates the strong emphasis he is placing on the need for competent personnel and for tougher standards of performance evaluation. He seems to have a clear understanding of the economy's problems and is determined to deal with them. Gorbachev has described the acceleration of economic growth as his major domestic goal and laid out a growth strategy that includes increasing the pace of scientific and technological progress, restructuring investment, reorganizing management and planning, and tightening economic discipline.

The key element in implementing this policy is to be the "re-equipping" of the economy with high-quality, technologically up-to-date machinery. This, he says, will require sharp increases in machinery production and a larger share of investment in machinery producing facilities. The other significant known components of his plans for dealing with the economy are essentially continuations of policies introduced in recent years, but not effectively implemented. These include vigorous application of Andropov's discipline campaign which waned under Chernenko, linking wages more closely to productivity, implementing Brezhnev's 1982 Food Program of which he was primary architect, providing more operational autonomy for enterprise managers, and sharply curtailing the powers of the ministries.

Gorbachev has indicated that a reorganization of the economic bureaucracy will be a major part of his strategy. In a June speech he suggested that plans for such a reorganization have now reached an advanced stage and that they include the creation of superministerial bodies, starting with agro-industrial and machine-building sectors. His speeches also suggest that these super-ministries will be restricted to "strategic" planning and leave operational control of enterprises in the hands of the managers on the scene.

Gorbachev's program could result in improved economic performance if vigorously pushed. Priority development of the food industry, for instance, coupled with greater attention to transportation and storage facilities, could considerably reduce the present enormous waste and spoilage

of agricultural produce. Moreover, the discipline campaign, which was evidently a significant factor in the economic upswing during Andropov's tenure, could again have a favorable impact on economic performance. Gorbachev is gambling that an attack on corruption and inefficiency, not radical reform, will turn the economy around. Although his approach is risky -- previous attempts to redirect investment resources and other economic initiatives generally have been frustrated by entrenched bureaucratic interests--his prospects for success should not be underestimated.

How much economic improvement occurs and how long it lasts will depend largely on whether Gorbachev can deal successfully with problems inherent in the economic system itself. He has not, for example, squarely addressed such problems as the arbitrary nature of Soviet prices, which prevent planners from making economically rational decisions, or the lack of sufficient consumer input into decisions on what to produce. Nor has he explained how, in a period of likely resource stringency, with investment to grow at an accelerated rate and defense likely to have a strong claim on resources, the consumer's needs can also be addressed.

There have been hints, however, in Gorbachev's past and recent speeches, and in the statements of some knowledgeable Soviet officials, that the General Secretary may eventually tackle some of these problems. In his Lenin Day Address in April 1983, for example, Gorbachev stressed the importance of greater reliance on prices as an economic lever. He returned to this theme in his June 1985 address to the Science and Technology conference, calling for a more decisive shift from administration to economic methods of regulating the economy. In the same address he also called for an end to "the domination of the consumer by the producer".

Gorbachev may well have decided to refrain from translating such vague expressions of support for controversial measures into specific proposals until he has fully formulated his plans and/or consolidated his political strength. A Soviet political commentator privately characterized Gorbachev's current approach as one of first adopting uncontroversial economic measures while simultaneously working on a long-range and more far-reaching program. Alternatively, Gorbachev may have refrained from bolder measures because he hopes that the steps he has already proposed will be sufficient to remedy the economy's ills. Indeed, he has made clear that he remains committed to the basic system of central planning. In either event, the

political momentum he already enjoys augurs well for his future ability to take bolder steps, and the ambitious nature of the goals he has set increases the chances that he will have to do so. Nevertheless, he is likely to find that real improvements will be short-lived and limited so long as the system is kept intact.

Drafted by:
F. Douglas Whitehouse, CIA
Martin J. Kohn, CIA

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USSR: THE ROLE OF FOREIGN TRADE IN THE ECONOMY

Foreign trade plays an important, albeit not critical, role in Soviet economic development. Although the Soviet economy is largely self-sufficient--purchases from abroad account for only about 10 percent of GNP--imports have helped Moscow improve consumption, boost productivity, remove industrial bottlenecks, and modernize weapon systems.

East-Versus West as a Source of Imports

The USSR has traditionally favored its Communist allies in its foreign trade.

- o About 65 percent of the USSR's machinery and equipment imports come from its Communist allies, mostly the East European countries.
- o These imports represent nearly half of all Soviet purchases from Communist countries. (See Figure 1)

Although East European machinery and equipment is often of lower quality than Western equipment, it is equal to or better than Soviet produced goods in many instances. The USSR also looks to Communist countries for manufactured consumer goods to supplement its own production. More than half of such imports -- primarily clothing and furniture--are purchased in Eastern Europe.

While relying on Eastern Europe for much of its machinery and equipment needs, imports of Western technology and equipment have been essential to expand selected Soviet industries (e.g. chemicals and automobiles), despite difficulties in assimilation.

- o Imported chemical equipment in the 1970s was largely responsible for a doubling in the output of ammonia, nitrogen fertilizer, and plastics during this period.
- o Construction of the Kama river truck plant, which is based almost exclusively on Western equipment and technology, has resulted in a roughly 100 percent increase in Soviet heavy truck output over the past decade.

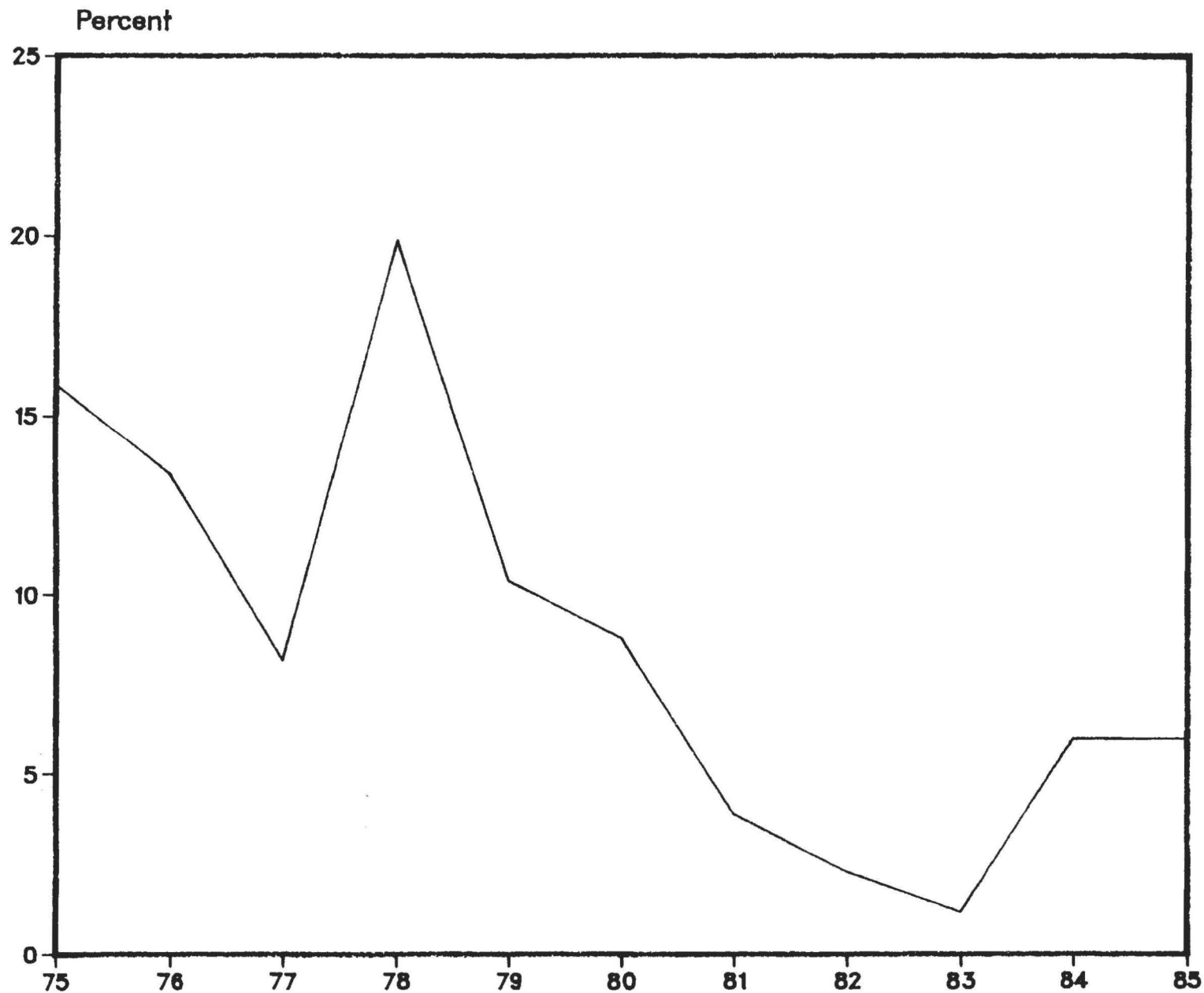
Imports from the West also have played a key role in supporting the energy sector.

- o The rapid construction of the Siberia-to-Western Europe gas pipeline would not have been possible without purchases of Western turbines, compressors and pipe.

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US Share of Soviet Equipment Orders, 1975-85



The value for 1985 based on first half data.

- o Deficiencies in Soviet drilling, pumping, and exploration have prompted Moscow to purchase almost \$20 billion in oil and gas equipment since 1975.

Imports of grain and other agricultural products have been the largest component of the USSR's western trade. A series of mediocre harvests during 1981-84 has pushed agricultural imports to record levels -- with average annual purchases of some \$10 billion during this period. Because of the limited ability of Communist countries to expand grain production, Moscow has had to rely almost entirely on Western countries to fill the gap between domestic output and requirements.

Finally, in addition to contributing to specific industrial sectors and overall consumer well-being, acquisition of gas and technology from the West has enhanced Soviet military programs.

- o Access to specific technologies has permitted improvements in a number of weapon and military support systems.
- o Gains from trade, in general, have improved the efficiency of the economy and thereby reduced the burden of defense.

Composition of Soviet Exports

In contrast to its imports, Soviet exports are composed mostly of raw materials, particularly energy. This concentration of trade has become particularly prominent since the mid-1970s as a result of rapidly rising fuel prices. By 1983, 70 percent of total Soviet exports to non-Communist countries and 50 percent of exports to Communist countries consisted of fuel shipments. (See Figure 2). Although arms exports to non-Communist countries are not specified in Soviet trade statistics, we estimate that this trade accounted for some 15 percent of total Soviet exports in 1983. Only 5 percent of Soviet exports are agricultural goods.

Soviet Trade With the Third World

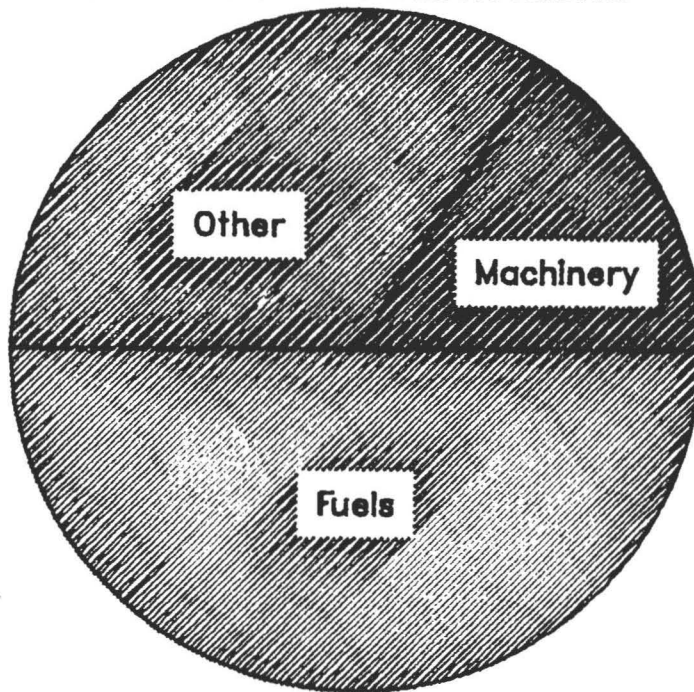
Unlike Soviet trade with the developed West, which is essentially an exchange of Soviet industrial raw materials for technology and agricultural products, Soviet-LDC trade consists of an exchange of Soviet manufactures--mainly military supplies--for industrial and agricultural raw materials. The LDCs represent Moscow's only major outlet outside the Bloc for exports of civilian and military manufactures.

Soviet military exports are the largest and most dynamic element in LDC trade. Such exports totaled over \$9 billion in 1982 and 1983, an amount equal to almost 70 percent of

Soviet Exports by Commodity, 1983

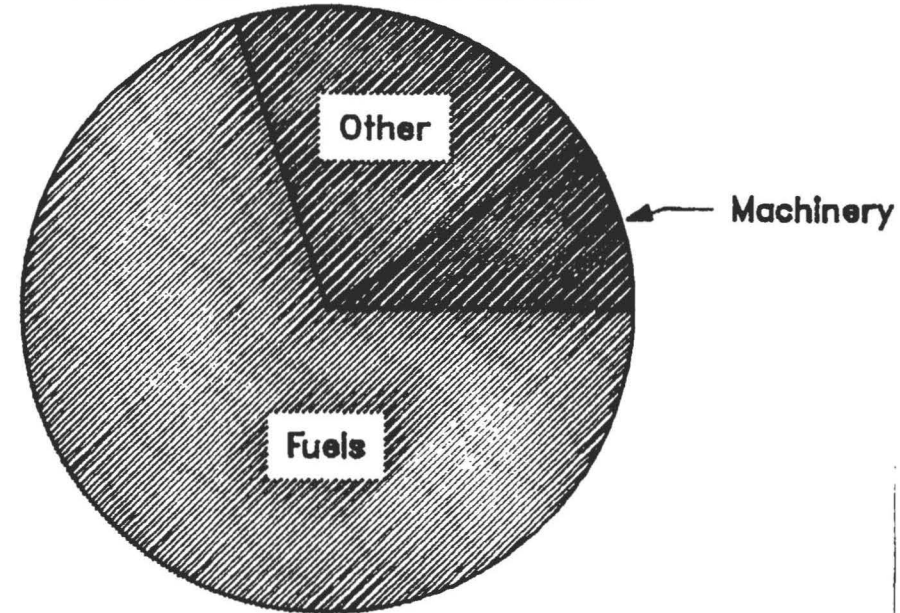
Communist Countries

1983 Total=37.8 Billion Rubles



Non-Communist Countries

1983 Total=24.9 Billion Rubles



Other Includes ferrous metals, agricultural products, consumer goods and military trade.

total Soviet exports to the LDCs. The military sales program offers Moscow substantial benefits:

- o It is a major tool for establishing Soviet presence and expanding influence in LDCs.
- o It provides Moscow with one of the few export opportunities in which Soviet-manufactured goods are somewhat competitive in price and quality with Western products.
- o After credits and payments reschedulings are netted out, it generates perhaps \$5-6 billion per year in hard currency revenues or their equivalent.

US-Soviet Trade

With the exception of agricultural imports, Soviet trade with the US has been relatively small. The US did participate in the expansion in commercial relations that accompanied East-West detente in the 1970s.

- o US exports to the USSR totaled only \$100 million in 1970, or less than 5 percent of Soviet hard currency imports.
- o By 1979, US sales totaled \$3.8 billion, nearly 20 percent of hard currency purchases. (See Figure 3)

Following the sanctions imposed in the wake of Soviet intervention in Afghanistan and imposition of martial law in Poland, US-Soviet trade dwindled. US machinery and equipment sales suffered the most, plunging from a peak share of 20 percent of Soviet orders in 1978 to only one percent in 1983. Despite the partial grain embargo from January 1980 to April 1981, US-Soviet agricultural trade did not decline nearly as much. Although the Soviets have increasingly diversified their sources of grain supplies, the US, as the largest and most stable exporter of grain, remains an important source for Moscow.

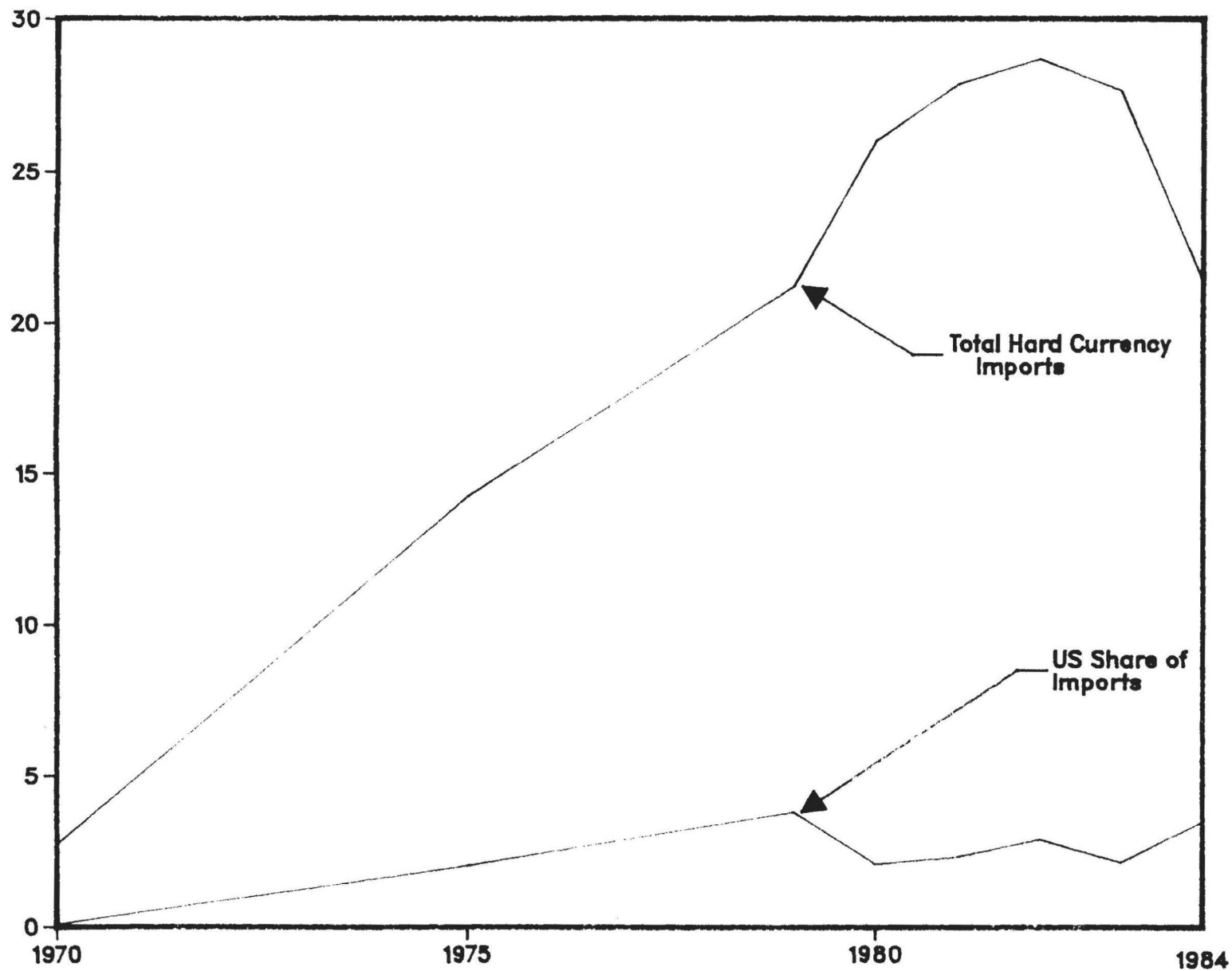
- o The USSR continues to be the single largest buyer of grain from the US.
- o During the 1984-85 market year, Soviet purchases of grain reached a record 22.7 million metric tons.

Foreign Trade Under Gorbachev

Since taking over as General Secretary in March, Gorbachev has made it clear that improved economic performance is his top priority. His plan focuses on modernizing the industrial base with more and better machinery--a

USSR: Imports from the United States, 1970-84

Billion Current US Dollars



strategy which could lead to an increased role in both Eastern Europe and the West.

Gorbachev is undoubtedly hoping for an increase in the flow of machinery from Eastern Europe and has spoken about the need for broader and tighter intergration within CEMA. While such rhetoric is not new--the USSR has long advocated joint production and specialization within CEMA as a means of getting the East Europeans to cough-up more--Moscow seems more intent than ever on pressing its allies to make firm commitments on this issue. In this regard,

- o An agreement signed by CEMA Prime Ministers in June pledged multilateral cooperation in designing and producing computer controlled systems.
- o The agreement follows a recent call in Pravda for a 50-100 percent increase in the rate of growth in machine-building in CEMA countries during 1986-90.

Moscow is probably limited in just how much it can get from its allies. Because most East European countries are constrained by their own resource and economic difficulties, any sharp increase in machinery exports to the USSR would have to come at the expense of much needed domestic investment or sales to the West that bring in hard currency. Such a shift would risk undermining growth prospects throughout the area which could cause serious political problems.

The limited prospects for sharply boosting imports from Eastern Europe increases Moscow's incentive to trade with the West. In particular, Gorbachev probably will look to the West for imports of technology and equipment for selected sectors--energy and electronics, for example -- where no good supply alternatives exist. Moreover, Moscow is presently in a good financial position to increase its purchases of Western machinery and equipment -- at least in the near-term.

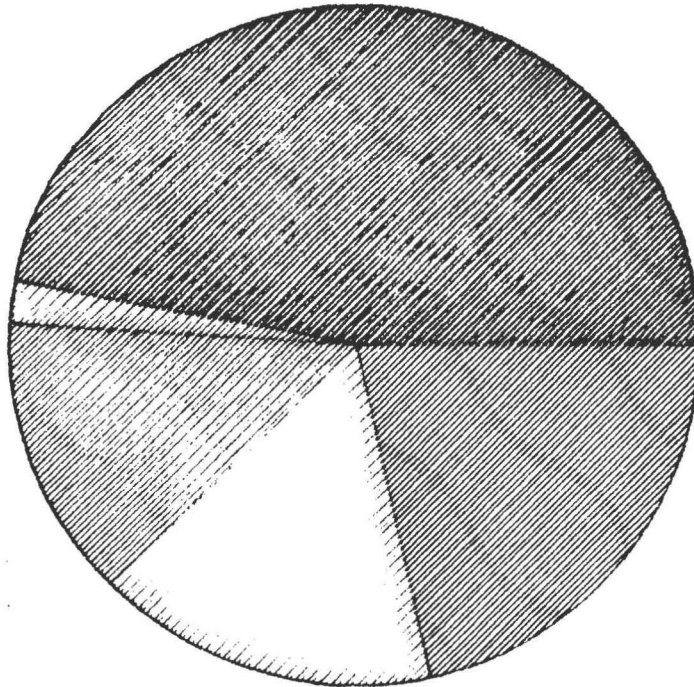
- o With a relatively small debt and approximately \$10 billion in assets in Western banks at year-end 1984, Moscow can easily obtain commercial credits to finance new purchases.
- o Most West European countries are also offering generous terms on government-backed credits in an effort to balance trade with the Soviets and spur their own economies.

Over the longer term, however, Moscow's financial position is much less certain -- falling world prices for oil and declining domestic production could limit Soviet hard currency earning capacity.

Soviet Imports by Commodity, 1983

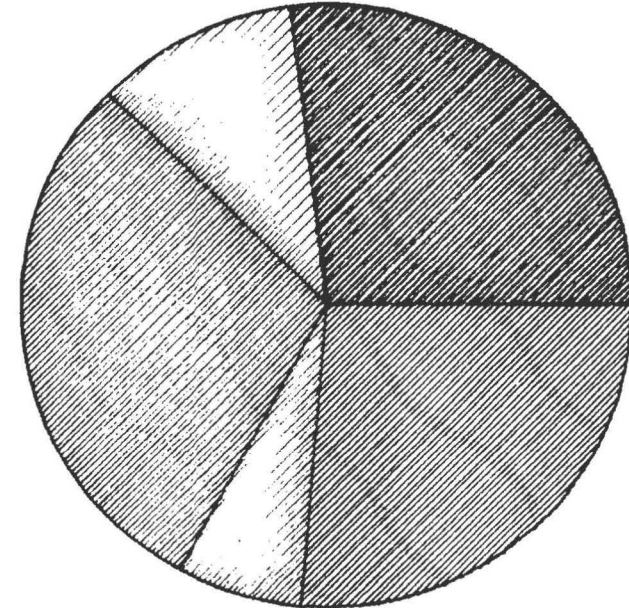
Communist Countries

1983 Total=33.7 Billion Rubles



Non-Communist Countries

1983 Total=25.7 Billion Rubles



- Machinery
- Ferrous Metals
- Agricultural
- Consumer Goods
- Other

Looking to the US

Prospects for an expansion of Soviet purchases of US machinery and equipment appear good -- albeit from the extremely low levels of recent years. The share of machinery and equipment orders going to the US during first quarter 1985 -- 10 percent -- is substantially above last year's 6 percent figure and, if maintained, would be the highest since 1979 (See Figure 4). Moreover, the US-Soviet Joint Commercial Commission talks in May 1985 produced a Soviet pledge to:

- o Try to do more business with US firms.
- o Put interested US firms on bidders' lists.
- o Fully consider US proposals on their economic merit.

In this regard, we have seen an improved tenor in US-Soviet contract negotiations since the beginning of the year. The Soviets are currently discussing major deals with US firms for the sale of personal computers, energy equipment, and agricultural technology. Although these negotiations may be protracted, some signings appear likely.

Nevertheless, the vast majority of Soviet purchases from the US will continue to be agricultural products. Under the current long-term US-Soviet grain agreement (which expires in 1988), Moscow is committed to purchase a minimum of 8-9 million tons of grain per year, with a value of roughly \$1 billion at current world prices. In poor crop years, Soviet purchases can be expected to be much larger.

Prepared by:

 CIA

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THE WHITE HOUSE
WASHINGTON

October 25, 1985

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INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT C. MCFARLANE *RCM*

SUBJECT: Papers on the Soviet Union: The Soviet Union in the World

DECLASSIFIED

NLRR M08-1251 #23144

RW NARA DATE 6-17-10

You have previously read four groups of papers on the Soviet Union. They dealt with the sources of Soviet behavior, the problems of Soviet society, the instruments of control, and Gorbachev's domestic agenda. The attached group looks at the Soviet Union's international position.

The first paper (Tab A) deals with Eastern Europe and the international communist movement. Soviet leaders view control of the contiguous countries of Eastern Europe and East Germany as essential not only to their security but also to the maintenance of their rule at home. The Warsaw Pact command, which is totally under the control of Soviet officers, is used both as a counterforce to NATO and as an instrument for controlling the East European countries. The Soviets have also tried to unify control over the East European economies through the Council for Mutual Economic Assistance, but this effort has been less successful than the military integration achieved through the Warsaw Pact Command.

Outside Eastern Europe Moscow maintains relations with some 80 nonruling communist parties and tries to assert a leading role among them. These parties vary greatly, however, in their willingness to support Soviet policies, and disunity within the world communist movement promises to remain a fact of life.

The second paper (Tab B) deals with Western Europe. Here the Soviets employ a variety of approaches, ranging from direct threats to blandishments. Image building and style play a large role, particularly now that Gorbachev has become General Secretary. The Soviets continue to court the European left and work to establish privileged dialogues with certain West European

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Declassify on: OADR

cc Vice President
Don Regan

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states, particularly France and Italy. They have promoted greater economic ties with Western Europe, which have so far weathered periods of strained political relations. On arms control issues the Soviets try to encourage European fears of an arms race in space and promote regional discussions of arms problems which exclude U.S. participation.

While the Soviets often seem preoccupied with Western Europe and the U.S., China looms as a major factor - and significant potential long-range threat. In addition to the major ideological and tactical disputes which led to the open Sino-Soviet split in the early 1960's, there were major border clashes between Chinese and Soviet troops in 1969. These have fostered Soviet fears of the potential for alignment among China, Japan, South Korea, and the United States.

However, the Sino-Soviet relationship has improved somewhat in recent years. Trade, for example, has increased and regular political consultations have been established. Some gradual improvement of relations is likely to continue, but there seems little likelihood that the two countries will become allies in the foreseeable future (Tab C).

Soviet entree into the developing world as a whole has largely been through arms sales. Arms account for some two thirds of Soviet exports to the non-communist developing world, with most going to the Middle East and North Africa. Soviet successes in the developing world, however, have not kept pace with the early advances of the 60's (Cuba) and 70's (particularly Ethiopia and Angola). Many nations have become disillusioned with the Soviet economic model and the Soviets' inability to provide significant financial assistance, and several Soviet protégés are beset by significant military resistance (Tab D).

Recommendation

OK

No

That you read the attached papers as background for your upcoming meeting with Gorbachev.

Attachments:

Tab A	The Warsaw Pact and the International Communist Movement
Tab B	The Soviet Union and Western Europe
Tab C	Sino-Soviet Relations
Tab D	The Soviets in the Third World

Prepared by:
Jack F. Matlock

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DECLASSIFIED IN PART

23145

NLRR P97-06613#23145

BY RW NARA DATE 11-4-10

THE WARSAW PACT AND THE INTERNATIONAL COMMUNIST MOVEMENT

Moscow and Eastern Europe

Soviet leaders see the maintenance of the Warsaw Pact military alliance and the continued existence of pro-Soviet regimes in Eastern Europe as a priority second in importance only to the preservation of communist rule in the USSR itself. Eastern Europe plays a critical role in Soviet calculations, serving both as a security buffer between the USSR and NATO, and as an extension of Russian domination and influence westward.

Moscow has used the existence of the "socialist commonwealth" and its "fraternal allies" in Eastern Europe to buttress its claims about the legitimacy of communist rule at home and abroad. The suppression of popular challenges to Soviet-style dictatorships--in East Germany (1953), Hungary (1956), Czechoslovakia (1968) and Poland (1956, 1970, 1976, and 1981)--has undermined the value of such claims abroad.

Nationalist ideas have influenced the East European regimes themselves to varying degrees, and fostered challenges to Soviet authority that have been somewhat more successful. At one extreme, the communist parties of Yugoslavia and Albania have never been under Moscow's control, and have pursued independent policies for decades.

The remaining six regimes, while under more effective Soviet domination, have all at one time or another carried out internal or external policies that departed from Soviet wishes. Romania's President Ceausescu has pursued a relatively autonomous foreign policy since 1964, while maintaining strict dictatorial rule at home. Several other regimes--Hungary, the GDR, and even Bulgaria--have also taken cautious steps in recent years to distance themselves from Soviet foreign policy positions. Nevertheless, all must be sensitive to Moscow's outlook and the pressures that the Soviets can apply.

The basic lessons of the past 40 years of Soviet domination of Eastern Europe appear to be:

- Moscow will not tolerate the overthrow of a communist regime, and will use military force where necessary to preserve or reestablish communist rule.
- Moscow will tolerate--though with great reluctance--some independence on the part of these communist regimes, and will not use force simply to bring such a regime back into line.
- Moscow will continue efforts to impose its will on these countries, even if this means provoking counteractions stemming from nationalist sentiments in Eastern Europe.

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Early indications are that Gorbachev is trying to restore tighter Soviet control over Eastern Europe after several years of slack reins resulting from leadership turnover in Moscow. He has pressured General Jaruzelski, for example, to crack down even harder on domestic opponents of the Polish regime.

The Warsaw Pact

The Soviets see the Warsaw Pact both as a means of enhancing their own security and as a mechanism for preserving communist rule in Eastern Europe. To Moscow, these two goals amount to the same thing.

The seven countries making up the Warsaw Pact officially are equal in its policymaking bodies, including its highest organ, the Political Consultative Committee, which is composed of the top party leader from each country.

During peacetime, the national armies remain under the formal control of their respective regimes, but the Warsaw Pact's unified command and staff coordinate bloc military policies and oversee training. This unified command is dominated by Soviet officers, and operates in effect as an extension of the Soviet General Staff. In wartime the Soviet Supreme High Command would assume direct command of the Pact's combined armed forces.

The Soviets also exercise considerable control over East European weapons procurement, and seek to ensure that all Pact armies are equipped with weapons of standard design. Despite considerable pressure from Moscow, the East Europeans have chronically failed to devote the resources necessary to stay in step with Soviet military modernization programs. Even the more advanced East European army units are typically five to 10 years behind their Soviet counterparts, and some units are still equipped with World War II vintage tanks.

These growing disparities between Soviet and East European forces, as well as among the East Europeans themselves, undercut Soviet efforts to achieve Pact-wide uniformity and frustrate their attempts to prepare the Warsaw Pact as a whole to conduct combined operations against NATO.

Soviet leaders apparently perceive most of the Warsaw Pact armies as dependable, at least in the initial stages of an East-West war.

Integrated Economies

The Soviets have long favored increased economic integration with Eastern Europe to accomplish several goals:

- Enhance bloc cohesion as well as their own hegemony;
- Constrain the pull of East European trade toward the West;
- Reduce block vulnerability to Western economic leverage;
- Increase the economic return to the USSR from intrabloc trade.

Most of the East European regimes resist Soviet efforts to strengthen the powers of the Council for Mutual Economic Assistance (CEMA), Moscow's primary mechanism for controlling their economies through joint planning.

The Soviets are running certain risks in putting pressure on the East Europeans to tie their economies more closely to the USSR, and must calculate the trade-offs involved in trying to curtail East European dealings with the West. The Soviets recognize that the East Europeans need to trade with the West in order to shore up their economies, satisfy consumer expectations, and thereby preserve domestic political stability. They also recognize the value of such East-West trade for technology acquisition, which can be transferred back to the Soviet Union. Moscow has been unwilling, moreover, to sacrifice its own trade with the West, or pay too high a price in subsidies to the East Europeans to promote economic integration.

The Soviets have moved in the last few years to reduce their subsidies to the East European economies and improve their terms of trade. In return for Soviet-supplied oil and other raw materials, Moscow wants the East Europeans to raise the quality and increase the volume of their exports to the USSR--chiefly food, consumer goods and machinery.

The Soviets have pledged to maintain oil deliveries to all CEMA countries at their present level through the end of the decade. Falling Soviet oil production puts their ability to keep their word in doubt, however, and they failed to keep a similar pledge during the first half of the 1980s. Moscow has also made it clear that such deliveries will hinge in part on East European investment in Soviet extraction and delivery projects, including the construction of another natural gas pipeline from northwest Siberia to Eastern Europe. Again, however, Moscow must strike a balance between meeting its own needs and jeopardizing political stability in Eastern Europe.

The International Communist Movement

Outside Eastern Europe the CPSU recognizes and maintains relations with some 80 nonruling communist parties. More than a third are illegal or restricted from participating in local electoral politics.

While retaining their Leninist organizational structure and authoritarian style, several nonruling parties in Western Europe, India, and Japan have evolved into mass parties attracting broad electoral support and winning parliamentary representation. These in particular assert their independence from the CPSU on a range of issues, both to establish national identities and better to resist direct Soviet pressure.

The nonruling parties vary greatly in their dependency on the CPSU and their willingness to support Soviet policies. Nevertheless, all of them, including even the largest and most independent, seemingly feel a need to retain ties to the CPSU and remain within the international movement, bound by an ideological vision in which the eventual triumph of "peace, freedom and socialism" is secured by the weakening and eventual destruction of Western democratic values and institutions. Even when little else is agreed on, this shared vision provides the basis for political cooperation with Moscow against the West, particularly the United States.

At the same time, it is those parties' conviction of Moscow's readiness to subordinate the needs of the international movement -- or rather the needs of foreign communists -- to the dictates of Soviet foreign policy which keeps them determined to oppose Moscow's efforts to reassert leadership of the movement.

The issues which divide the Soviets and the large foreign parties are often expressed in terms of ideological conflict, e.g., a struggle between the proponents of "orthodoxy" and "revisionism." On the issue of autonomy, these parties vehemently insist on the right to define their own interests and pursue them with their own tactics. The Soviets, for their part, insist that the interests of any single party must be subordinated to the common interests of the movement, and that as the senior member of that movement, they have the major voice in defining what these common interests are. Moscow thus continues to attempt to assert its leading role among all parties and to ignore in practice its rhetorical endorsement of diversity and separate roads to socialism.

Consequently, disunity within the world communist movement promises to remain a fact of life. Formation of a new international center is highly unlikely; indeed, Moscow's incurable propensity for meddling in other parties' internal affairs argues the likelihood of more defections by smaller nonruling CPs and aspiring socialist groups. Thus the movement seems condemned to perpetual fragmentation and polemics. But as long as the Soviet party considers the movement important to the interests and future of the Soviet

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state, it will never abandon efforts to keep foreign communists harnessed to its cause -- and will always find some who will go along willingly and tactics to persuade others.

Prepared by:

 CIA and
David Hertzberg, Department of State

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