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ANDROPOV'S MILITARY PROGRAMS

On the basis of observed military activity in the USSR, Soviet resource allocations for defense will continue to grow at 4 to 5 percent per year through 1985, just as they did through the 1970s. Soviet marshals and other supporters of defense programs among the Soviet leadership probably consider the state's investments in its military establishment during the Brezhnev era amply justified by the security the USSR has enjoyed over the past two decades and by the political power exerted by Soviet arms worldwide. The behavior detailed in the enclosed paper (The Brezhnev Era: Military Posture of the USSR) indicates that their strategic priorities are these:

- (1) Acquiring the means to attack and defeat American military forces at all levels of conflict.
- (2) Maintaining the integrity of the Warsaw Pact.
- (3) Securing the borders of the USSR in Asia.
- (4) Extending the influence of the USSR in the Third World.

In recent years these priorities have apparently underwritten unprecedented military research and development programs. Current R&D includes work on some 200 major weapon systems which will reach deployed forces sometime over the next 10 years. For example, we know that floor space at 168 key military R&D facilities, which work on all types of weapons, more than doubled between 1963 and 1981; and from construction underway, we expect that steady expansion to continue at least through 1985. Recent expansion has been greatest in facilities for missiles, space systems, and lasers. During the 1980s, some 165 to 180 new or substantially modified major weapon systems should be introduced into the Soviet Forces--about 25 to 40 more than in the '60s or the '70s. Compared with the 1960s and 1970s current Soviet R&D exhibits much less emphasis on evolutionary modifications to existing systems and concentration on new designs of higher technological risk and inherent costs.

Since R&D and procurement together absorb about half of Soviet defense outlays, these ongoing programs point to ever higher resource allocations for defense. The Soviets are already working on counters or counterparts to almost every impending US weapon system. PEACEKEEPER could evoke deployment of a mobile, land-based ICBM, and a new thrust in ABM defenses. Military missions of the US space shuttle could be matched by a Soviet space plane and a space-based antisatellite laser. US SLBMs like C-4 and D-5 will be answered by SS-NX-20 deployments. Deployment of Pershing II could trigger a surge of SS-20 deployments (they are stockpiling precast concrete base-parts during the present "moratorium"), and GLCM could be answered by land-attack SLCM deployments to "put the US in an analogous

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position." US ALCM, GLCM, and SLCM systems will almost surely cause new air defenses to be deployed, including more capable radars and laser weapons. These and improved antiship and ASW systems could be fielded, and from all present indications, will be.

Were Andropov and his colleagues so to choose, they will have the military means to adopt more aggressive and confrontational policies, including new arms for offensive and defensive intercontinental warfare, which would be inherently more threatening to the US. Moreover, they could pursue military programs which could threaten Europe directly, as with increased deployments of "Eurostrategic" weapons, or indirectly, via Southwest Asia. They will be able to intimidate Japan in the same ways.

Clearly, there are inhibiting factors. One is Afghanistan, where Muslim insurgents have successfully challenged the might of the Red Army, raising problems for the Soviets among their own Muslim minorities and calling into doubt the wisdom of projecting Soviet land forces further into Southwest Asia, e.g., into Pakistan or Iran. Another is the PRC and its implacable opposition to Soviet "hegemonism." And undoubtedly a third is concern that a militant, militarist USSR might catalyze a return to US defense budgets of 9 percent GNP, a revitalized NATO, and even an anti-Soviet military coalition including the PRC, Japan, and the US. A fourth is the poor performance of the Soviet economy, which could support continued growth of the military sector only by increasingly painful deprivation of Soviet and East European consumers.

The Soviet economy's overall productivity continues to decline, with the 1982 industrial performance the fifth straight year of decreased growth. Soviet GNP will rise in 1982 about 1.5 percent, the fourth consecutive year in which growth has been below 2 percent. The outlook for 1983 is for more of same: slow growth, endemic industrial shortfalls, and no improvement in consumer living standards. This year, after three years of harvest shortfalls, the government launched a well-ballyhooed food program designed to improve the production, processing, and marketing of food products. But it seems evident that there will have to be other policy shifts to arrest and reverse the pervasive malaise. Options include modest cutbacks in defense spending, a reallocation of investment to industrial bottlenecks like transportation and ferrous metallurgy, broader use of personal incentives to energize labor, and a systematic attempt to solve the geographic maldistribution of the labor force.

CIA recently published an assessment entitled "Can the Soviets 'Stand Down' Militarily?" (Directorate of Intelligence, June 1982), which concluded that cuts as high as 20 percent by 1990, phased in gradually after 1985, were possible, but unlikely. The CIA paper, written before Andropov, characterized prospects for a resource shift as follows:

"To be sure, on a "micro" level the Soviet military-industrial complex has on occasion been directed to help reduce Soviet dependence on Western imports by shifting resources to the civilian economy. We have information that suggests the defense industries are now charged with helping to modernize the civil gas turbine industry so that the Soviets will be able to produce their own efficient turbines for gas pipelines.

"The Soviet economic predicament is in many ways a product of Moscow's own choosing. By placing a priority on military research and production, the leadership has slighted the civilian sector, thus helping to create pronounced imbalances in the economy.

"Although the Soviet economy is in deep trouble, the country's present leaders do not believe the time has come for drastic action. They are convinced--and we concur--that some growth remains to be squeezed from the present resource-allocation scheme. In a sense, Soviet leaders have reached the point of banging and shaking the ketchup bottle to get out a few more drops--the effort is tremendous and the return is small, but at least there is a return. The Soviet economic bottle is not yet empty--so to speak--and until it is, the leaders are likely to remain unwilling to launch a program designed to improve economic performance by shifting resources.

"Any near-term decision by the Soviet leadership to shift resources from the military to civilian investment is unlikely for other reasons as well:

- The Soviets recognize that military power is their principal currency as an international actor and that continued high levels of defense investment are necessary to sustain the present dimensions of Moscow's global role.
- The Soviets' assessment of their security requirements for the 1980s would probably hold little prospect for reduction in defense spending. The recurrence of instability in Eastern Europe, the prospect of an increased arms competition with the United States, and continuing hostility with China will maintain the pressure for continued high levels of military outlays.
- Given the current support within the Soviet elite for maintaining a strong military position, advocacy of deep cuts in military spending would necessarily involve formidable political risks for any faction within the Politburo inclined to move in this direction. This would be particularly true during a succession period, when those maneuvering for power would be reluctant to advocate major changes in defense policy.

"No faction would propose a resource shift, and the Politburo as a whole would be unlikely to authorize a shift, unless in the judgment of

the Soviet leadership, a resource shift were economically necessary. Moreover, Soviet leaders would resist the idea of a resource shift unless and until they had reason to believe that the West would not seize the opportunity to forge ahead militarily while the Soviet Union stands down.

"Nonetheless, the Soviets could at some time feel impelled to reduce defense expenditures if:

- Economic conditions in the USSR turn out to be poorer than we currently project (for example, a series of disastrous harvests causing an actual reduction in economic output).
- Extraordinary political shifts occur, such as a Sino-Soviet rapprochement, a general lessening of tensions with the West, or a move by Western European countries away from US influence.
- Soviet political leaders who are sympathetic to consumer needs come to power."

The CIA assessment noted that for the USSR East-West trade and technology transfer has been a key factor in staving off economic disaster and sustaining military growth. In the 1970s imported chemical equipment accounted for one-third of all machinery purchased in the West; the Soviet chemical warfare capability is the largest in history. The Soviet motor vehicle industry has been especially dependent on Western technology; the Kama River truck plant, largely purchased in the US, produces nearly one-half of all Soviet heavy trucks, which are supplied directly to the Soviet military. Western computers have been imported in large numbers; to date the USSR has not been able to match the militarily relevant computer hardware, software, or expertise available in the US, Japan, or West Europe. Soviet imports of tungsten have been crucial for its submarine construction and tank munitions. The CIA assessment concludes as follows:

"Since the credit, goods, and technology provided by the West have helped Moscow to maintain its current allocation scheme, it follows that if the West were able to deny or limit Moscow's access to these forms of assistance, pressure would be increased on the Soviet leadership to shift resources from arms production to the civilian economy.

"The action that would impinge most quickly on the resources available for military production would be a denial of machinery and materials used either to produce machinery or to supplement domestic machinery production. For example:

- An embargo on specialized oil and gas production equipment would force Moscow to allocate military-oriented metallurgical and machine-building facilities to produce such equipment; reduced Soviet petroleum output in the interim would aggravate civilian industrial problems and might, therefore, cause additional civilian encroachment on defense production.

- An embargo on large-diameter gas pipe and other high-quality steel products could possibly cut into production of such military items as submarine hulls.
- An embargo on equipment for plants manufacturing cards, trucks, and mining and construction vehicles (as well as an embargo on such vehicles themselves) could increase the pressure in the Soviet Union to produce these items in military plants.

"Western denial of grain and other agricultural products would also hamper the Soviet military effort. For example, to increase domestic farm output, Moscow might have to allocate more factory space to producing farm machinery instead of tanks and armored personnel carriers. A Western embargo on selling farm machinery or on building the facilities that manufacture such machinery would also put pressure on existing priorities. Reduced per capita food consumption would work against Soviet efforts to raise worker productivity, increasing the problems facing industry.

"By curtailing the Soviets' import capacity--primarily by restricting credits but also by hampering their oil and gas production and thus their hard currency exports--the West would further raise the cost to the USSR of maintaining its present policies on resource allocations.

"It is, of course, impossible to say for certain that the Soviet leaders would respond to Western pressure by shifting resources. However, it is important to note that in some instances they have deemed a shift to be in their best interests and have directed the military-industrial complex to support the civilian economy."

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DIRECTORATE OF INTELLIGENCE

13 December 1982

The State of the Soviet Economy in the 1980s

The Basic Situation

Soviet economic growth will continue to decline in the 1980s as average annual rates of increase in labor and capital decline and productivity gains fall short of plans. We expect average annual GNP growth to fall below 2 percent per year in the 1980s.

- The labor force will grow more slowly in the eighties than it did in the seventies--at an average annual rate of 0.7 percent compared with 1.5 percent.
- Growth in the productivity of Soviet plant and equipment, which has fallen substantially since 1975, will continue to drop as the cost of exploiting natural resources rises and Moscow is forced to spend more on infrastructure.
- Continued stagnation in key industrial materials--particularly metals--will inhibit growth in new machinery, the key source for introducing new technology.
- Energy production will grow more slowly and become more expensive, whether or not oil production falls.
- With continued growth in domestic energy requirements, Moscow will face a conflict between maintaining oil exports and meeting domestic needs.
- Agriculture will remain the most unstable sector of the Soviet economy, with performance in any year highly dependent on weather conditions.

Slower growth of production will mean slower expansion in the availability of goods and services to be divided among competing claimants--resources for future growth (investment), the consumer, and defense.

MORI/CDF

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- Continued rapid growth in defense spending can be maintained only at the expense of investment growth.
- Slower expansion of investment will be compounded by the increasing demand for investment goods in the energy, transportation, metallurgy, and machinery sectors.
- An increased share of investment in heavy industries, together with continued large allocations to agriculture, will depress the expansion of housing, and other consumer goods and services.

Making up production shortfalls through imports will become more expensive as the need for imports increases and Moscow's ability to pay (hard currency earnings) declines.

- The Soviet need for imports of Western grain and other agricultural commodities will remain high in the 1980s, as will requirements for Western machinery and technology.
- We expect real export earnings to decline between now and 1990 as sales of natural gas fail to offset the drop in oil earnings, and opportunities to expand exports of other commodities remain limited by their low marketability and tightness in domestic supplies.
- The availability of Western credits will be crucial for Moscow to maintain or increase its imports from the West; a tighter credit market would complicate Soviet economic problems and make resource allocation decisions more painful.

Options for the New Leaders

Changes in Decision-Making Process

The poor performance of the economy during the latter years of the Brezhnev regime has driven home to the new leadership the notion that there are relatively few opportunities for quick fixes and that the economic problems of the current decade may spill over into the 1990s. Because the new leaders can expect to reap the benefits of policies with longer pay-off periods, their policy decisions may be more forward looking. The new leaders will be especially sensitive to the fact that severe disruption of the economic system by the implementation of hasty, ill-conceived policies might be a quick route to both economic and political disaster.

The new leadership probably will continue to favor bureaucratic centralism rather than moving voluntarily toward fundamental systemic change. These leaders--because of the stringent economic situation and their own personalities--will rely more on tightened discipline and control to effect economic

policies of long standing than on coaxing desired behavior through increased incentives. Andropov's long tenure in the KGB has given him experience in using administrative measures to modify behavior. Moreover, the Soviet people, faced with unsettling economic and social problems, seem ready to accept a leader who would demand greater discipline.

This trend, however, would not rule out a mix of liberal and authoritarian measures. Greater dependence on the private sector, for example, is a distinct possibility that could be classified as liberal, while harsher penalties for labor absenteeism and mismanagement, though authoritarian in nature, need not mark a return to neo-Stalinism.

Changes in Policy

The new leaders will surely bring changes in economic policy. Because they have laid particular stress on continuity, and because it may take some time to develop a strong consensus, new policy lines may not appear until the 1986-90 five year plan has been drafted--i.e., 1984/85. Some indications of change are likely to be discernable next year, however, as discussion and debate about policies for the late eighties ensues and annual plans for 1984 and 1985 are formulated.

Major Claimants. The hardest policy decision for the Andropov leadership will be resource allocation among the major claimants. Maintaining historical growth in defense spending would squeeze investment and consumption further. Keeping investment growth at current rates as well, might result in an absolute decline in consumption.

The Military. Strong incentives exist for at least some slowdown in military hardware procurement. In addition to needing more resources to break economic bottlenecks, a slowdown (or even zero growth) in military procurement for a few years would have no appreciable negative impact on forces already in the field, and modernization of these forces could still proceed. We believe the groundwork for such a course may have already been laid in Brezhnev's speech to top military officers on 27 October 1982. In any event, this course will be required if the Andropov Politburo wants to improve economic performance substantially.

Investment. A strong candidate to receive more investment funds is the machine-building sector--because of the need to modernize Soviet industry and because of constraints on importing foreign machinery and technology. Modernizing machine-building would also help justify a temporary slowdown in defense hardware as such action could ultimately enhance military hardware production. The new leadership, with its longer time horizon, might launch such an effort.

Consumption. A new leadership prone to authoritarian solutions is likely to be more pragmatic in its consumer policy, and may place more stress on tying wages and "perks" more closely to production results. Retail prices may also be raised on all but essential goods and services, and an expansion of the private sector in consumer services may be in the offing.

Reform. The new leadership's predilection for administrative measures and bureaucratic centralism would severely limit the extent of future economic reform. The difficult economic situation argues against reform measures--like those launched in Eastern Europe--that had never been tested in the USSR. Some movement toward a regionally organized economy might be thought more suitable to today's problems--for example, exploitation of energy and raw materials in Siberia.

Agriculture. The new leaders will continue to support the farm sector, but might decide to favor the industries that support agriculture and those that process its output. The Food Program already does this to some extent, but an actual cut of investment inside the farm gate would be a stronger signal of the new leaders' dissatisfaction with the returns from agricultural investment.

Labor. In addition to instilling tighter discipline, the new leaders are apt to focus on automating manual labor (consistent with more investment in machinery), and developing social and cultural infrastructure in labor-deficit regions. The latter would provide some inducement for emigrants from labor surplus areas and reinforce a regionally differentiated pro-natal policy favoring the labor deficit areas.

East-West Trade. With economic problems pressing from every quarter, the new leadership might welcome--though perhaps not publicly--the opportunity to expand economic ties with the West in general and with the US in particular; the more so if decisions are taken to slow growth in military hardware, step-up investment in machinery, and reduce investment on the farms. Under these circumstances, Moscow might find it advantageous to press for (1) economic ties that provide them with technology and goods for both civilian and military purposes and (2) arms control arrangements that limit Western advances in military technology which they would find difficult and costly to counter.

Impact of Changes. These changes in approach and policies will not be a panacea for the Soviet economy's ills. Nevertheless, the changed policies could bring marginal improvements in key areas and allow the new leadership to continue to muddle through even in the face of economic conditions probably worse than they had expected. Of primary importance to the new leaders, these policies would not require the surrender of power and would continue to allow them the freedom to impose their will on the smallest economic or administrative unit. In this way, they could feel assured of

their ability to handle such problems as public unrest, external economic or military threats, or internal disasters that would require an emergency redistribution of resources.

Opportunities for the US

Opportunities for the US to influence the policy changes discussed above lie mainly in whether and to what extent we are willing to expand commercial ties with Moscow and in the signals we send the new Soviet leaders with respect to arms control negotiations. Of most immediate use to Moscow would be an arms control agreement that would provide a more predictable future strategic environment and thereby permit the Soviets to avoid certain costly new systems--and perhaps thereby enable them to increase somewhat future investment for bottleneck sectors of the economy--particularly transportation, ferrous metals, and machine building. Soviet officials have clearly indicated that staying with the United States in an arms race would have dire consequences for their economy. They probably are also uncertain of their ability to keep up technologically.

Moscow's recent attitude toward purchases of US grain notwithstanding, the United States could again become an important source of Soviet purchases of agricultural products and machinery and equipment for both agriculture and industry. The need is there, if the "price" (including sanctity of contract) is right. Soviet agriculture could benefit substantially from US technology in livestock feed production, fertilizer application, and animal breeding, and the US is still Moscow's best long-term bet for grain imports on a large scale.

The USSR faces increasing dependence on the West in developing and processing its oil and gas resources in the 1980s. From a technical viewpoint, the US is the preferred supplier of most types of oil and gas equipment because it is by far the largest producer, with the most experience, the best support network, and often the best technology. In some products--for example, large capacity down-hole pumps--the US has a world monopoly (albeit one that could be broken in a few years by entry of other Western producers), and the most critical needs of Soviet oil industry are for just such equipment.

Because the prospects for Soviet hard currency earnings in the 1980s are far from bright, Western credits will have to cover an increasing proportion of Soviet imports from the West. An increase in the availability of US government backed credit could look very attractive to the new leaders in Moscow.

However, since the mid-1970s, the Soviet experience in commercial relations with the US has been disappointing to Moscow, and it would probably take a strong initiative on our part just to get their attention. Although a US offer to renew close economic ties with the USSR might be welcome, it would probably be greeted skeptically by the Soviet leadership as primarily a tactical maneuver--

a further retreat by Washington (following the grain and pipeline decisions) brought about by US-West European economic competition and pressures from US business circles. Needing to consolidate his power, Andropov could not--even if he wished--respond unilaterally to such an initiative, but would have to move within a leadership consensus strongly influenced by the views of Gromyko and Ustinov, who would urge caution. Thus the Soviets might:

- Accept part of the offer as a means of coping with particularly acute bottlenecks, especially in technology and food supplies.
- Seek to avoid the establishment of long-term economic dependencies on the US.
- Exploit any new atmosphere of mutual accommodation as a means of reinforcing support in the United States and Western Europe for cutbacks in defense spending and arms control measures favorable to Soviet interests.

We would expect the Soviets to give any US initiative low-key treatment, publicly casting doubt on US motives, but at the same time seeking to engage the Administration in a dialogue about it. A US offer to return to a "business-as-usual" basis would probably not result in any surge in orders for US companies beyond the sectors in which the US is already an important supplier. Moscow is at least as likely to use the opportunity created by a US offer to put commercial pressure on the West Europeans and Japanese, and exacerbate existing tensions in the Alliance. At a minimum, Moscow would press for US government guarantees regarding fulfillment of contracts while at a maximum it might seek repeal of the Jackson-Vanik and Stevenson amendments. In either case, it would refuse to make any significant political concessions in return--which Andropov probably could not deliver even if he desired. If this process permitted the Soviets to acquire more technology on acceptable terms from the United States, they would do so--but not at the expense of established ties with Western Europe and Japan, or of their own long-term economic independence. The Soviets have traditionally taken advantage of opportunities to exploit relations with the West to acquire technology and goods for both military and civilian purposes and we expect they will continue to do so.

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

13 December 1982

ASSESSMENT OF ANDROPOV'S POWER

Andropov's Power

General Secretary Yuriy Andropov is the most authoritative leader in the Politburo and has demonstrated impressive political power from the outset. He certainly has more strength than Brezhnev had at the beginning of his long tenure (in 1964). Andropov's status as top leader was most visible in his meetings with foreign leaders only days after he had become General Secretary. Moreover, Andropov has already been given pride of place in protocol rankings and in leadership listings, and a few officials have begun to refer to him as the "head of the Politburo," an accolade given to Brezhnev several years after he was named General Secretary.

The Politburo's decision to promote Andropov almost certainly reflected an informal understanding at least among a core group of members that the country needed a strong leader, that Andropov was best qualified to assume the post, and, more importantly, that Chernenko -- his chief rival and Brezhnev's choice -- was weak and unacceptable. Andropov undoubtedly exploited such negative views of Chernenko in his successful efforts in May to maneuver his way back into the Secretariat in order to become a major contender in the succession sweepstakes. While Brezhnev's patronage gave Chernenko some obvious advantages in this contest, this strength was not institutionalized and evaporated with Brezhnev's death. The speed of Andropov's ascendancy reflected a leadership desire to project an image of decisiveness abroad and avoid any

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signal of conflict and political paralysis, not a prearranged decision made last May when Andropov entered the Secretariat. Chernenko's own visibility and activity in recent months suggest that the contest remained open while Brezhnev was alive. [redacted]

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The Lineup

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We do not know how various Politburo members actually voted in the Andropov-Chernenko contest or even whether a formal vote was taken, but Moscow rumors [redacted] leadership status indicators, and informed speculation provide the basis for a reconstruction of the likely lineup. At a minimum Andropov seems to have had strong backing from Defense Minister Ustinov, Foreign Minister Gromyko, and Ukrainian party boss Shcherbitskiy. With their political fortunes still ahead of them, the two youngest Politburo members -- party secretary Gorbachev and Leningrad First Secretary Romanov -- may have joined this strong coalition as well, at least on this vote. Chernenko probably received support from the two Brezhnev loyalists -- Prime Minister Tikhonov and Kazakhstan First Secretary Kunayev. Grishin, the Moscow party chief, may have joined this group possibly in hopes of becoming a compromise choice. Octogenarian Arvid Pelshe was very likely too sick to play a role in the decision. For his part Chernenko apparently did not fight the decision to the bitter end, opting instead to close ranks behind Andropov and preserve his position as "second" secretary, a strategy that for the present has been successful. Only Grishin -- to judge from his slippage in protocol -- seems to have fought excessively and suffered for it. [redacted]

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Andropov, thus, has institutional support where it counts. The national security apparatus, particularly the military-industrial complex and the KGB, is behind him. Such backing gives him added room for maneuver but, at least in the case of the military, cannot be taken for granted. He will, in addition, need to strengthen his position within the party apparatus. He lacks a strong regional base and must depend on officials whose careers he has had little influence in shaping. [redacted]

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Opportunities and Flexibility

Andropov, nonetheless, has come to power with what seems to be solid backing and without resorting to a major political bloodbath. This situation has allowed him to assume a more

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authoritative stance in the leadership than Stalin, Khrushchev, or Brezhnev did at a comparable point in these successions. His promotion has given a new momentum to leadership decisionmaking. Indeed, for the first time in years the Soviets have a leader who puts in a full day

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From what we can tell, his colleagues recognize and value his ability and perceive him to be intelligent. They know from his tenure as KGB chief that he can be counted on to be decisive in preserving the party's legitimacy and social order. They probably expect him -- within limits -- to be a bold, forceful leader, and they are likely to give him some room to be such. As a result, he is probably in a strong position to influence and lead the Politburo consensus.

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Andropov seems to be in a particularly good position to chart the course of Soviet foreign policy. He has considerable experience and knowledge in this area and is obviously inclined to take an active role. Foreign policy initiatives, moreover, have the potential for producing beneficial results more quickly than changes in domestic policy, a matter of considerable importance for a leader who wants to build his power. He is not as likely, in addition, to encounter the sharp factional infighting and debate that occurs over proposals for domestic shifts, particularly in economic management.

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This situation effectively means that the Soviet Union will not be paralyzed in the foreign policy arena. Andropov has room for maneuver here and can be expected to propose initiatives and respond to those from abroad he deems serious. In doing so, however, Andropov will rely heavily on two of his colleagues on the Defense Council, Defense Minister Ustinov and Foreign Minister Gromyko, for advice. He would certainly need their support to get the Politburo's assent to a major shift in Soviet foreign policy or to make major modifications in arms control negotiations with the US. Andropov will probably count on his personal and political alliance with Ustinov and apparently good working relationship with Gromyko to help create the Politburo consensus required for important departures.

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It seems likely that the three have been key figures in formulating the Soviet foreign policy line pursued in Brezhnev's last years.

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As long as they remain united the Politburo is likely to follow their lead. If,

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on the other hand, there are significant disagreements between them on future foreign policy steps or tactics, Andropov would not be likely to force the issue at least in the near term.

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Constraints

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This flexibility on foreign policy, nonetheless, does not mean that he has carte blanche from the Politburo. While he can lead and shape the consensus, he is still bound by it. The Politburo remains a collegial body and its current membership is not beholden to Andropov nor under his thumb. Andropov is indebted to many of his Politburo colleagues, particularly Ustinov, and is dependent on their collusion and support until he can reshape the Politburo, a process that could take several years.

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Andropov's colleagues are evidently trying to hold back his advance. The failure to name a replacement for Brezhnev as Chairman of the Presidium of the Supreme Soviet indicates conflict. The personnel changes (Aliyev, Komsomol, progaganda organs, Council of ministers) made since Andropov became party chief while almost certainly endorsed by him, seem to have served many interests within the leadership (Ustinov, Chernenko) as well. Even if Andropov is named Soviet President at a scheduled session of the Supreme Soviet on 21 December (a better than even possibility), he must still push through even more politically important personnel shifts in the Politburo and Secretariat to fully consolidate his position and to dominate policy.

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The collective restraint on Andropov is likely to be particularly evident in domestic policy. While the entire leadership is undoubtedly committed to solving Soviet economic problems as a top priority, consensus on what the solution should be has not been reached. Economic issues are inherently political, complex, and controversial. The bureaucratic obstacles to significant changes in economic management are immense. Andropov is probably generally knowledgeable about the economy and is certainly well informed about issues affecting internal security, but he has little personal experience in economic management and his closest supporters are more concerned with foreign and security policy. No one, moreover, as Andropov emphasized to the Central Committee, has all the solutions to the country's economic difficulties. As a result, he is likely to move cautiously in this area -- a strategy he said was needed in his plenum speech.

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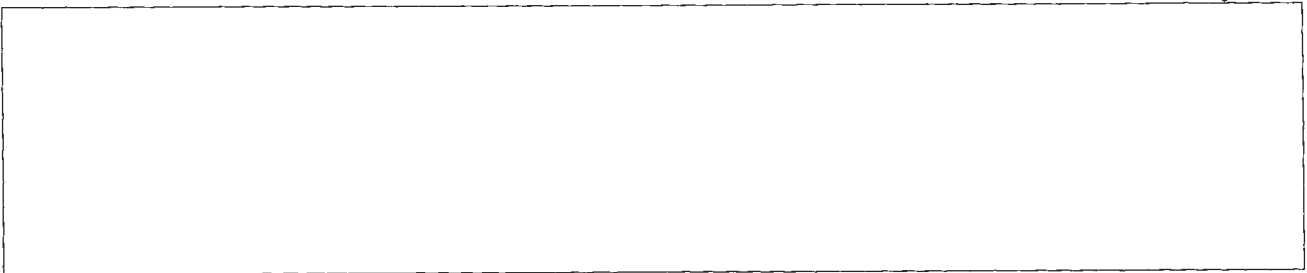
Domestic and Foreign Policy Linkage

Significant movement toward resolving the nation's economic problems might, in fact, require Andropov to achieve some relaxation of tensions with the US on China or both. Only by doing so can he justify to his colleagues and the military some reallocation of resources from defense to investment, an essential step in any plan to address the country's economic problems. In this regard, the next two years are particularly crucial for Andropov and the Politburo. The planning cycle for the 12th Five Year Plan -- 1986-1990 -- is already underway.

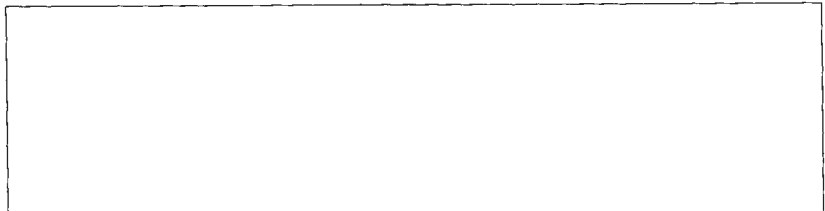
[redacted] the Soviet military's assessment of the external threat is an essential element in this cycle and will be formally developed during 1983. The Politburo in 1984 will act on this military assessment in allocating resources for the next five year defense plan. This will be the new Politburo's first formal and comprehensive ordering of internal priorities between economic investment and defense procurement. Without reduction in international tensions, which some in the military such as Chief of the General Staff Ogarkov, contend are exceedingly high, the rate of defense growth will be politically hard to reduce. Failure to reduce defense spending, nonetheless, will make it very difficult to solve Soviet economic problems and will over the long run erode the economic base of the military industrial complex itself.

Advisers

Andropov will also get advice from his own staff of foreign and domestic aides. He is now assembling his team, and a few have already been publicly identified. Andrey Aleksandrov-Agentov, Brezhnev's longtime assistant, has participated in several of Andropov's meetings with foreign dignitaries and continues to be identified as an aide to the General Secretary.



In addition to the formally identified group of personal aides to Andropov, the new party leader will likely tap three old associates on an ad hoc basis: Georgiy Arbatov, director of the Institute of the USA and Canada, Aleksandr Bovin, a Brezhnev speech writer, and Fedor Burlatskiy, an expert on China and



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public opinion. All three worked for Andropov in the 1960s when he was the party secretary responsible for Communist Bloc relations. These men are knowledgeable, sophisticated observers of US policy and have been identified with Brezhnev's detente strategy, but their actual influence on Andropov is not known. []

Prospects

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On balance, the speed with which the new General Secretary was appointed, his assertion of a leading role in foreign policy, and the self confident statements of Andropov and Ustinov on international issues reflect real strengths and potential flexibility on Soviet policy that were not present in Brezhnev's final days. While there are bureaucratic obstacles to significant changes in economic management, there does seem to be general agreement on the need for action and this will provide some receptivity to specific proposals as long as they preserve party power. Additionally, the improved leadership ranking of the key actors in national security affairs (i.e., Andropov, Ustinov, and Gromyko) and the clouds on the international horizon for the USSR provide the necessary consensus and incentive for change and flexibility in foreign affairs. []

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During previous succession periods in the 1950s and 1960s, for example, there were definite new departures in foreign policy. In the fifties, the Soviets ended the Korean war, signed a peace treaty accepting Austrian neutrality, reopened diplomatic relations with Israel, called off disputes with Greece and Turkey, and moved towards summitry with President Eisenhower. They also made their first moves to counter Western influence in the Third World. In the sixties, the Soviets developed a policy of selective detente with France, then slowly did the same with West Germany, before turning to improved relations with the US. Partly in response to worsening relations with China, the Soviets also pressed for a series of arms control measures that led to the nonproliferation treaty and SALT I. At the same time, they began the buildup on the Sino-Soviet border, gave impetus to a massive Soviet arms program, and began aiding North Vietnam's effort to take over the South. []

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The new leadership has already taken pains to reaffirm the broad outlines of Brezhnev's foreign policy and to signal the importance of improved ties with the US. Andropov's decision to meet with Vice President Bush and Secretary of State Shultz within hours after Brezhnev's funeral indicated the Kremlin's interest in some normalization of US-Soviet relations. In view of the prospect of an enhanced US strategic challenge in this decade, there appears to be ample incentive for Andropov to try to curb new US arms program and particularly to prevent or at

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[redacted]

least delay the deployment of INF. The specter of Pershing-II in the FRG and the attendant threat to Soviet strategic forces and command and control capabilities could lead to new initiatives in the INF negotiations as well as to build European opposition to INF deployment. Gromyko's visit to Bonn next month -- would provide a convenient forum for such an initiative. [redacted] 25X1

The Gromyko visit provides an opportunity not only to put the US on the defensive but to increase divisions between the US and its NATO allies. Gromyko will lobby for increased Soviet-West European cooperation and trade, which provide political as well as economic benefits for the Soviets. The removal of US sanctions imposed after Afghanistan and the steady return to normalcy in Poland will add to the credibility of Gromyko's brief in Bonn. [redacted] 25X1

The inability to effect some visible reduction of tensions with the US will generate even greater interest in Moscow to improve Sino-Soviet relations and to exploit differences between Washington and Beijing. The Soviets clearly do not want continued antagonism on "two fronts" at a time of more assertive US policies, a mounting US defense effort, and ever increasing economic problems at home. For these reasons, the Soviets have sufficient incentive to entertain a unilateral move that would include withdrawing a division or two from the Sino-Soviet border or Mongolia in addition to thinning out various units in the area. [redacted] 25X1

Although the reduction of force in any area would be highly controversial within the Soviet military, it would probably create the greatest geopolitical payoff if Moscow were able to do so in Afghanistan. Any significant diminishing of the Soviet military role there would offer considerable potential rewards:

- removal of a key obstacle to improved relations with both the US and China,
- termination of a source of embarrassment in the entire Islamic community,
- earlier dealings with key European actors as well as India, and
- savings in both lives and treasure at home. [redacted] 25X1

Elsewhere, continuity appears to be the order of the day. Continued fighting between Iran and Iraq as well as the loss of credibility in the wake of the Israeli invasion of Lebanon add up to rather bleak short-term options in the Middle East. There are

[redacted]

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no likely targets of opportunity in South America at this juncture, and the Soviets will probably be content to pursue their gradual and incremental strategy in Central America. In Africa, the Soviets will concentrate on complicating the Namibean talks in which the Soviets also find themselves as odd man out. They also will be alert to opportunities in southern Africa -- such as in Mozambique -- to expand their (and especially the Cuban) presence. Senior Politburo member Grishin's anniversary speech earlier this month, which reaffirmed Soviet support for Cuba and Vietnam, argues for continued activism on behalf of Moscow's most important clients in the Third World. [redacted]

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These Soviet priorities suggest areas for US pressure and/or blandishment that could have an impact on Soviet ability to improve their international position. Indeed, Andropov must realize that the US is well placed in certain respects to challenge the international position of the USSR and to exploit Moscow's fear of the specter of encirclement.

- The US could play the role of spoiler in the Sino-Soviet-US triangle by holding out to the Chinese the promise of increased defense cooperation, expanded technological ties, and a more equivocal position on Taiwan.
- US willingness to modify the "zero option" at INF would preempt Soviet initiatives in this area and might help sustain support for US deployments in Western Europe (although such modifications might have other, less desirable consequences).
- The mere perception of US pressure on Israeli and South Africa to become more conciliatory would enhance Washington's prestige and leverage in the Middle East and Southern Africa and commensurately reduce Soviet influences. [redacted]

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Conversely, the US is in a position to offer to Moscow some restoration of the centrality of Soviet-American relations that would enhance Moscow's international position and ameliorate Moscow's economic problems.

- There are several economic initiatives open to the US, particularly some easing up of limits on credits and technology transfer.



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- Notwithstanding recent Soviet references to strengthening defense, Moscow would like to prevent a major US arms buildup, which they would be hard-pressed to match right now and sees arms control as the best way to achieve this.

- Less acrimonious atmospherics and a dialogue with the US on Third World trouble spots would also be attractive to Moscow, although past experience strongly suggests they would not alter their behavior. [redacted]

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The Soviets have already suggested that they are looking for ways to restore the notion of the centrality of Soviet-American relations in international affairs, and presumably realize that some relaxation of tensions would ease the problems of making their own choices on future allocation of resources as well as the pressure from the national security apparatus for increased military spending. The rise in stature for Andropov, Ustinov, and Gromyko suggests the emergence of a consensus on national security issues in general and the prospect of some flexibility on specific issues. Such putative critics of Andropov as Chernenko and Grishin would probably support the triumvirate's efforts to improve relations with the US in view of their earlier support for Brezhnev's detente and arms control initiatives. The key role will be played by Ustinov who appears to be in a position to block those initiatives that do not protect the equity of the military. [redacted]

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THE VIEW FROM MOSCOW

I. Brezhnev's Legacy

Yuriy Andropov's replacement of Leonid Brezhnev as CPSU General Secretary followed an eighteen-year period in which, from Moscow's perspective, the Soviet Union made impressive gains in both its domestic and foreign policies. During Brezhnev's years as General Secretary, the Soviet Union emerged as a global military power, unprecedented stability was achieved within the ranks of the Communist Party, and slow but steady growth was maintained in the civilian economy. At the same time, Andropov has inherited a number of problems that will have to be addressed in the coming decade. These problems, together with the capabilities and opportunities bequeathed by Brezhnev, form the basis of the review of Soviet policy now underway in Moscow.

Achievements of the Brezhnev Era

The new Soviet leadership can justifiably argue that Brezhnev's term in office witnessed a shift in the "correlation of forces" in Moscow's favor. Together with its substantial military build-up, the Soviet Union has developed a global network of friends, allies and client states that extends Soviet influence, enables Moscow directly to challenge Western interests in the developing world, and gives credibility to Moscow's claims to be a global power without whom "no international problem can be solved."

Favorable developments have also occurred in several areas of importance to Moscow: the NATO Alliance is experiencing severe political, military, and economic strains; Iran is no longer a U.S. strategic asset on the USSR's southern border; and a process is in motion toward improved relations with China at a time when the threat of a Sino-American alliance is receding.

Domestically, Brezhnev's most striking achievements were on the political side: under his leadership, intense factional rivalries at the top of the CPSU gave way to relatively consensual politics. Brezhnev's leadership style paved the way for what thus far appears to be the first smooth succession in Soviet history. In parallel with stabilization among the elite, Brezhnev presided over a largely successful effort to suppress dissent and non-conformist tendencies within Soviet society.

On the economic side, Brezhnev was able during much of his tenure to sustain a long-term military build-up while keeping consumers satisfied by slow but perceptible growth in living standards. Although growth has slowed in recent years and structural problems are becoming increasingly apparent, Soviet leaders can still tell themselves that the Soviet economy has made great strides since the Khrushchev era -- let alone in comparison with the dark days of collectivization and World War II, when the Brezhnev-Andropov generation got its political start.

Unresolved and Emerging Problems

Alongside these gains, the new Soviet leadership must cope with a series of unresolved problems inherited from the Brezhnev era, as well as some emerging new ones:

In foreign policy, détente with the United States -- from which the USSR derived important benefits -- has collapsed, and a more openly competitive and militarily threatening Administration has taken charge in Washington. Despite a greater West European attachment to détente, Moscow sees NATO as having embarked upon an effort to deprive the USSR of its longstanding advantage in medium-range missiles. And closer to home, there is continuing discontent and potential instability in Eastern Europe at a time when the USSR finds it difficult to meet the growing economic burdens of empire.

At home, economic growth rates continue to decline. Many factors are involved: shrinking labor resources, declining worker productivity and morale, difficulties in developing and assimilating new technologies, a decade of miserly industrial investment, systemic deficiencies in Soviet agriculture, plus chronic problems of alcoholism and corruption. These factors combine to threaten the regime's ability to maintain growth in defense capabilities without cutting living standards and, if not attended to over the longer term, could contain the seeds of domestic unrest. On the political side, the advanced age of the leadership confronts the regime with the problem of a continuing succession process in the next several years.

The Soviet leadership's immediate preoccupation will be the consolidation and allocation of political power within the key Party and state organs. Differing views on questions of resource allocation and economic revitalization are likely to surface. At one extreme, economic stringencies may be cited as requiring major structural reforms to the economic system, reduced defense spending, and/or a pull-back in foreign policy from some of the USSR's more exposed and costly positions. At the opposite extreme, some leaders, particularly within the

military establishment, will argue that the current U.S. Administration is so thoroughly anti-Soviet that growth in defense spending should increase.

In the next two years, dramatic shifts in either of these directions are unlikely. Despite the acknowledged gravity of the economic situation, the regime may well believe that there is still some breathing space before corrective action becomes urgent: the economic growth rate is still 2 percent, not zero; consumer discontent, while rising, is still controllable; and there is likely to be a respite from chronic grain shortages if, consistent with the laws of probability, the USSR enjoys a decent harvest after an unprecedented four successive years of bad weather.

Andropov admitted to the Central Committee that he has no "ready recipes" for improving the economy's performance. He will probably rely in the short run on stop-gap solutions -- tighter discipline, importing selected economic reform measures from abroad, new incentives for speeding introduction of new technology in Soviet industry -- in an attempt to spur economic growth. He will also continue to import Western technology, equipment and farm products.

Whatever the course followed, economic stringencies are not so severe as to require any retrenchment in foreign affairs or any substantial reduction in defense spending in the next two years. Nor is it likely that Soviet leaders see the longer-term economic outlook as so bleak that it is necessary for the Soviet Union to embark on a desperate effort to capitalize on its waning military advantages, before it is too late.

* * *

In sum, Brezhnev's legacy provides incentives over the long term for change in Soviet policies, and constituencies doubtless exist for such change, particularly on the domestic side. Moreover, it is conceivable that Andropov, having assumed the top leadership at 68 years of age, may feel he has to make his mark quickly and undertake some innovations in the near term -- in foreign as well as domestic affairs.

However, the continuance in power of Brezhnev's closest lieutenants is more likely to militate in favor of continuity. Over the next two years, Brezhnev's heirs will not feel compelled by domestic economic constraints to undertake sudden shifts or new departures in domestic affairs. By the same token, neither the immediate task of political consolidation

nor the longer-range need for economic reform is likely to compel near-term changes in Soviet foreign policy.

Continuity in foreign policy should not be confused with passivity. The active diplomacy practiced before Brezhnev's death -- most notably the anti-INF campaign and the opening toward China -- will almost certainly continue, and new opportunities in the Third World are likely to be seized as they arise.

II. Soviet Assessment of the United States Under The Reagan Administration

Andropov's ascension will not affect the basic Soviet outlook on the United States that has taken shape over the past two, or indeed six, years. Since 1977, the Soviets have faced two Presidents about whose views they knew little in advance, and whom they perceived as unpredictable, perhaps dangerously so. Moscow judged the Carter Administration as initially schizophrenic in its policies toward Moscow -- espousing disarmament on the one hand while stimulating a NATO military build-up on the other -- with anti-Sovietism taking hold in the latter half of the Carter Presidency.

Since January 1981, Moscow has seen itself up against a U.S. Administration that is, for the first time since the 1950s, openly and unequivocally anti-Soviet, and unwilling as a matter of principle to accept what Moscow sees as a new historical reality: the USSR's attainment of "superpower" status, and the right to assert itself on an equal basis throughout the world. This perception has been progressively reinforced by the Administration's defense build-up, a continued push for INF deployments, the harsh and ideological rhetoric employed by Administration officials from the President on down, our continuing emphasis on human rights, and the appointment to high posts of individuals seen by Moscow as philosophically opposed to US-Soviet cooperation and arms control agreements under any circumstances.

The Soviet leadership is doubtless worried by the U.S. military build-up (perhaps more worried than is warranted by the programs per se), and nervous about U.S. political efforts to diminish Soviet influence in such regions as the Middle East and southern Africa. Moreover, the Soviets recognize that the Reagan Administration is a more serious competitor than its predecessor in regional contexts, more willing to defend its own interests, and capable of driving up the costs of Moscow's adventurist behavior (as evidenced by our actions in Afghanistan). In comparison with the Carter years, the Soviets are probably

somewhat more fearful of an assertive U.S. response to Soviet actions toward situations in the developing world where the position of Soviet-backed forces is fragile (e.g., arms transfers to the Salvadoran insurgents; MiG deliveries to Nicaragua).

But whatever marginal increase in Soviet cautiousness has been induced by this Administration's policy, it has not been enough to bring about a Soviet retreat. Despite early concerns aroused by this Administration's threatening rhetoric, Moscow is by now probably considerably less apprehensive about direct U.S. action against Cuba. In Angola, despite nervousness about our diplomatic initiative, the Soviets have held firm and, in fact, presided over a sizeable increase in the Cuban military presence. In short, the Soviets do not presently feel pressured toward retrenchment in the Third World.

Looking further ahead, the Soviets may have reason to doubt the staying-power of this Administration's harder-line policies. From Moscow's perspective, factors impinging on U.S. policy include: domestic economic constraints which have undercut the pro-defense consensus; the anti-nuclear sentiment reflected in the freeze movement; Alliance pressures and disagreements on trade and security issues; problems and uncertainties in relations with China; deteriorating conditions in Central America; and 1984 election politics, upon which all of the foregoing will converge, and which may bring to power a new Administration more amenable to improving relations with Moscow.

If it views the Reagan Administration in this light, the Soviet leadership may conclude that the best course is to "wait out" the Administration until the "forces of history" have forced the U.S. back to more "realistic" policies. In other words, while not breaking off the diplomatic and arms control dialogue with us, the Soviets would not expect any major agreements could be reached. While not feeling themselves under any pressure to make major concessions to the U.S., the Soviets would defer decisions on a substantially increased defense effort.

The foregoing appears to be the current Soviet assessment of the Reagan Administration. Some in the Soviet leadership, however, may have come to the conclusion that U.S. unwillingness to accommodate itself to the Soviet Union's emergence as a global superpower has deep roots, and represents a strain in U.S. foreign policy that antedates and will endure well beyond the Reagan Administration. If this should become the dominant view, Soviet policy would confront two separate, but fundamental choices: sustained arms competition vs. a negotiated modus

vivendi; and recurrent confrontation vs. greater restraint in the Third World.

Whatever their long-term outlook, the Soviets will seek to pressure or isolate the U.S. by cultivating relations with China and Western Europe, and by fueling the nuclear anxieties of Western publics. Moscow will in the near term continue to express the hope that it will prove possible to do business with the Reagan Administration, and may even advance new proposals to test U.S. flexibility, particularly in the arms control area. But based on two years' experience, the Soviets are increasingly skeptical of this Administration's willingness to do business on a basis that would not require the USSR to "change its foreign policy" in fundamental ways.

Moreover, Moscow probably believes that, even if this Administration were willing to do business, the pay-offs would be minimal in terms of expanded trade or constraints on U.S. weapons programs. In sum, Moscow doubts the credibility of our efforts to establish "linkage" between Soviet conduct and improved US-Soviet relations and, at the same time, does not believe that we would follow through on linkage in terms of rewarding Moscow for positive changes in Soviet behavior.

Thus it is unlikely that the Soviets see much cause to make significant substantive concessions toward the United States with the purpose of inducing us to do business. But the Soviets will probably undertake new initiatives in the next two years designed primarily to put the U.S. on the defensive politically, and to stimulate Allied and public pressures on the Administration to alter its policies.

III. The USSR's Other Foreign Relations

Other Soviet foreign relations which have direct consequences for U.S. interests include:

China: The Soviet leadership clearly is interested in creating at least the appearance of movement toward Sino-Soviet normalization, among other reasons to put pressure on the United States to be more accommodating in bilateral relations. The Soviets may also perceive a common interest with the Chinese in actual substantive steps toward more stable relations (ideological differences are no longer as significant, permitting restoration of party-to-party ties; mutual benefits are possible from trade). Thus Moscow may take limited substantive steps in the near term, such as troop cuts on the Sino-Soviet border, to advance the process. If the Chinese reciprocated, Moscow would go further, although in the foreseeable future the Soviets' interest in avoiding friction with the Vietnamese is an

inhibiting factor against any effort to resolve the Kampuchea problem. In any case, the Sino-Soviet relationship will continue to be burdened by deep mutual suspicions and conflicting political and strategic interests.

Japan: The Soviets do not view Japan, even in Alliance with the U.S., as a serious near-term military threat in the Far East. Despite Soviet interest in acquiring Japanese technology, they have made no effort in the past to improve relations with Tokyo. It is conceivable that the new Soviet leadership could launch a peace offensive as it has done in Western Europe to sow divisions between the U.S. and Japan, perhaps involving troop reductions on some of the disputed islands or an offer to freeze Asian SS-20 deployments. But because of the non-negotiability of the main issue dividing Moscow and Tokyo -- the Northern Territories -- it is unlikely that there will be any serious substantive initiatives on Moscow's part. Threats to Tokyo, including continued moves toward Sino-Soviet normalization, are more likely than blandishments in the Soviet effort to discourage Japanese-American strategic cooperation.

Western Europe: The Soviets perceive West European governments as more concerned about defusing East-West tensions, more willing than the United States to tolerate Soviet adventurism in the developing world, and more receptive to cooperation with Moscow without political preconditions. Thus, while seeking to avoid rekindling interest in separate European defense arrangements, Moscow seeks to exploit West European interests in trade with the USSR and expanded East-West human contacts, popular opposition to NATO defense improvements, and other strains in Atlantic relations as means of weakening NATO's defense posture and putting pressure on the U.S. to move back toward more "realistic" East-West policies. At the same time, the Soviets also see intrinsic benefits in expanding their relationship with Western Europe, principally economic (a source of technology, as well as markets for Soviet exports, especially energy).

Since the late 1970s, the Soviets have been particularly concerned about NATO efforts, instigated by the U.S., to "upset the established balance" in Europe, particularly the long-standing Soviet superiority in longer-range INF missiles. They may have feared that the 1979 decision to deploy 572 GLCM and Pershing II missiles was but the first step toward a larger U.S. "Eurostrategic" force, to be reinforced by modernized U.K. and French nuclear forces. This fear has likely subsided in light of the problems INF deployments have encountered among West European publics. But if Soviet concerns about the potential military impact of INF deployments have declined, Moscow's number-one political objective in Western Europe

continues to be to exacerbate US-West European strains over the INF issue and, in the process, to derail the deployments themselves.

In 1983, we accordingly can expect to see a continued Soviet carrot-and-stick strategy designed to block INF deployments. This will likely entail new or repackaged proposals suggesting Soviet willingness to reduce SS-20s if NATO deployments are suspended or cancelled, accompanied by ambiguous threats of counterdeployments and adoption of a launch-on-warning policy. If the initial phase of deployments begins on schedule in December 1983, the Soviets will move quickly in 1984 to respond -- perhaps through cruise missile deployments or stepped-up pressure in Berlin or the Caribbean, but more likely with further efforts to appeal to growing anti-military sentiment in Western Europe -- in an effort to derail subsequent deployments, or at least to maximize the political damage to US-European ties of carrying the deployment program to completion. (Regardless of whether the Soviets succeed or fail in heading off INF deployments, they will still be able to sow considerable discord in Atlantic relations.)

Eastern Europe: For strategic reasons, maintaining Soviet control and internal tranquility in Eastern Europe will be of fundamental concern to any Soviet leadership. In recent years, however, it has become increasingly costly for the Soviets to sustain the higher living standards of their Allies, and they have in fact reduced subsidies to the East European economies. For this reason, and in light of their experience in Poland, the new leadership must be especially concerned by the risk that underlying popular discontent in the region and the population's vulnerability to Western influences could lead to threats to stability and Communist rule. Moscow's dilemma is finding the proper balance between continued repression to enforce the political status quo, and tolerance of economic reforms and political liberalization to relieve underlying social tensions.

In the near term, however, the Soviet leadership is probably confident that the worst is past in Poland, and that the immediate danger of spillover of the Polish contagion to the rest of the bloc has passed. A year of calm in Poland has already dampened the Western reaction to the imposition of martial law; another year of calm will simply confirm that the threat to Communist regimes has receded, and provide the Soviets with the grist for further efforts to dismantle Western sanctions piecemeal. In the longer run, it is conceivable that Andropov will stimulate increased economic experimentation in Eastern Europe along Hungarian lines, perhaps in tandem with a tightening of the political screws.

The new leadership will also be alert to opportunities to strengthen Moscow's position in Eastern Europe, both inside and outside the Warsaw Pact. For example, Andropov may try to exploit Romania's economic difficulties to bring Ceaucescu (or his successor) back in step with Soviet foreign policy. Steps to exploit Yugoslavia's economic troubles or to foment separatist movements are also possible. In addition, the Soviets may perceive a target of opportunity in Albania, should Hoxha die or be overthrown.

Third World: The Soviets have historically considered the Third World as a major arena for advancing the USSR's interests; particularly since World War II, Moscow has also viewed competition with the U.S. (as well as other Western countries and China) for influence in the developing world both as a primary means of establishing their credentials as a global power, and as a means of undermining Western strategic and economic interests. Despite periodic setbacks, and despite the increasing burden of supporting client states economically, the Soviets have persisted in an assertive Third World policy. The new leadership will likely continue to view the Third World as one of the most important arenas for East-West engagement.

The Soviets have generally taken a low-risk, opportunistic approach to the Third World competition, relying on proxies or security assistance in order to minimize the risk of direct confrontation with the U.S. Afghanistan is unprecedented in that the Soviets' own troops were directly involved, and may signify an increased readiness for direct engagement elsewhere.

With respect to specific regional issues:

-- Afghanistan: The Soviets must appreciate that there can be no near-term military solution at current levels of involvement. Soviet strategy is probably based on the judgment that the resistance can be worn down over a period of many years, as done earlier in the Bolshevization of Soviet Central Asia. The domestic burden of the Afghan adventure is not significant enough to impel the Soviets toward an early withdrawal. Thus the Soviets will continue to focus on influencing the Pakistanis (through both threats and blandishments) in order to curtail armed assistance to the rebels. One means of doing this will be to create the appearance of a willingness to negotiate on a political solution, without offering any concessions which would undercut Soviet insistence on maintenance of a pro-Soviet Afghan regime.

-- Middle East/Persian Gulf: In the Middle East, the Soviets suffered a setback with the US-engineered PLO withdrawal from Lebanon, continue to be excluded from the

Arab-Israeli peace process, but nonetheless continue to maintain important clients in the region. Thus the Soviets can be expected to continue to seek a role in the peace process and to improve ties with moderate Arab states, while attempting to undermine US-sponsored initiatives and exploit future breakdowns in the process. In the Gulf, Soviet strategic interests received a major boost with the fall of the Shah and expulsion of the U.S. from Iran. Since then, the Soviets have been playing a waiting game, looking for new opportunities to expand their influence.

-- Africa: In southern Africa, the Soviets probably will continue quiet efforts to scuttle the Namibia/Angola negotiations, while endeavoring to position us as the scapegoat for the failure they hope will eventuate. They also may seek to reinforce their regional position by providing additional military aid, directly or via surrogates, to governments threatened by South African destabilization. In the Horn of Africa, the Soviets' intimate relations with Ethiopia's Marxist regime, and the latter's military preponderance in the area, offer the Soviets a possible proxy should they decide to seek an "easy" geopolitical advantage. The Sudanese and Somali leaderships are both closely identified with us and quite insecure at home. Should the Soviets decide on such an initiative, they could be emboldened by the belief that no political base exists in the U.S. for direct American military support of these regimes.

-- Central America/Caribbean: The Soviets have made it a priority objective to build up Cuba's military capabilities in the face of what they perceive as an increased U.S. threat to Havana, as a means of sustaining their destabilizing actions in the region indirectly, and as a way of diverting American attention and efforts from the global competition.

Moscow may have become more cautious about exploiting fluid situations in this hemisphere in response to this Administration's strong representations about the region. But the Soviets realize that U.S. sensitivity about the area provides a low-cost opportunity to challenge us in our own back yard. As a result, they have not hesitated to seize opportunities when they arise and to defy U.S. warnings against involvement in the region, relying on Cuba as an intermediary in order to avoid provoking a direct confrontation with the U.S. It is possible that this Administration's stance made the difference in the Soviet decision not to supply MiGs to Nicaragua, but the Soviets have not in any way cut back on their military support for the Sandinistas.

-- Southeast Asia: The Soviets consider themselves the chief outside beneficiary of Hanoi's 1975 victory and its extension of domination to Laos and Kampuchea. While obtaining greater military access to the region, they have been unable to build politically on this advantage due to Hanoi's isolation in the region, and have had to shoulder the growing burden of subsidizing the Vietnamese economy. Prospects for improvement in Sino-Soviet relations and the advent of a Sihanouk-led coalition, which creates another option for Hanoi, may tempt Moscow to nudge the Vietnamese toward accommodation with their neighbors; its own fears of Sino-Soviet normalization could prompt Hanoi to move in this direction. But a close, aggressive Soviet-Vietnamese relationship -- which Moscow will be reluctant to jeopardize in the near term -- will effectively preclude extension of Soviet influence outside Indochina; a satisfactory settlement and general accommodation in Southeast Asia, however, could lead to a marginal increase in Soviet activity in ASEAN.

IV. Moscow's U.S. Policy Agenda Over The Next Two Years

If, as we expect, neither leadership politics nor broader domestic concerns veer out of control, the Soviet Union will continue to conduct an active foreign policy over the next two years, invigorated at least to the extent that Andropov is personally more engaged and skillful than his predecessor. We do not anticipate either a dramatic retrenchment or a new burst of expansionism.

This judgment could, of course, be altered by the unpredictable consequences of such events as the outbreak of a divisive leadership struggle within the Politburo, a new breakdown of order in Poland, or a major US-Cuban confrontation. In such unforeseen circumstances, the Soviets could offer major substantive concessions, for example moves to accommodate U.S. positions in START and INF, or a compromise in their stance on requirements for a negotiated settlement in Afghanistan. On the other hand, the Soviets could follow a more aggressive course, including an escalation in destabilizing activities in Central America, shipment or deployment of "offensive weapons" to Cuba, or support for large-scale aggression against Somalia.

Short of such unanticipated developments, over the next two years the Andropov leadership is likely to see opportunities for initiatives in several areas -- some substantive, some atmospheric, some propagandistic -- designed to put the U.S. on the defensive and undermine our Alliance relationships: efforts to block INF deployments; steps toward Sino-Soviet normalization; efforts to influence Pakistani policy in Afghanistan; and

the like. The Soviets may also launch an INF-style propaganda campaign concerning the START negotiations, in order to appeal to pro-SALT II forces in Europe and the U.S., and to make the case that U.S. intransigence in START is blocking an INF agreement. It is also possible that the Soviets may make some low-cost gestures on the human rights front in order to induce greater U.S. flexibility on issues of central importance to them.

In US-Soviet relations, we expect a continuing deemphasis on conducting substantive business with the United States so long as we refuse to move off our current agenda. Emphasis will instead be placed on isolating and/or pressuring the U.S. and gaining influence among our traditional friends and in selected developing countries, as well as with China.

The Soviets will continue to express interest in a "carefully prepared" US-Soviet summit meeting, in order to demonstrate Moscow's constructive attitude, to pressure the Reagan Administration to accommodate Soviet positions, and to place the onus on the U.S. for preventing a summit (or for precluding the possibility of a positive outcome should a summit take place). In general, Moscow will continue the arms control and diplomatic dialogue with us -- maximizing the propaganda value of this dialogue, while probing for signs of U.S. flexibility -- but insist that since the U.S. bears virtually all responsibility for the downturn in relations, it must make the first move toward improvement.

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