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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. report draft	re: response to NSSD 2-86: Soviet initiatives in international economic affairs (2pp) <i>CS</i>	n.d.	P-1
2. vax	re: Soviet Politburo's members comments on internal opposition to Gorbachev's economic reforms and possible solutions to Soviet economic problems (3pp) <i>D 10/16/82 NLS MOI-010 #30</i>	10/30/86	P-1 <i>Folder</i>
3. vax	from Sec. of State to Am. Embassy Sofia re: GATT accession, Bulgaria charge calls on dept (1p)	9/23/86	P-1 <i>8</i>
4. REPORT DRAFT	R 2/13/83 MOI-010 #29	ND	BI 7 <i>Folder</i>
1A. NSSD	NSSD 286 3p. R n n #29A	9/16/86	BI
1B. DRAFT	of P. 10 1p R n n 29B	ND	BI
1C. FORM	RE Request for Appointment 1p. PART. n n #29C	11/24/86	B3, BI
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Background Papers

Soviet Foreign Trade Sector Reorganization

Reorganization of the foreign trade sector is both a prerequisite for and consequence of the Soviet attempt to carve out a greater role in world trade and thereby eventually establish for the Soviet Union a role in international economic affairs commensurate with its status as a political and military superpower. Fundamental reform, however, either is not being contemplated by Moscow leadership or currently is beyond its reach. Instead, in classical Soviet fashion, institutional and personnel changes are the primary focus of the reorganization at this point. Several entirely new entities are being created to oversee the reform effort - at the expense of entrenched institutions - and a younger generation of less experienced bureaucrats is replacing much of the "old guard" in the foreign trade sector.

The sectorial reorganization is prompted by Gorbachev's desire to improve Moscow's export profile and terms of trade. Much like an LDC, the USSR has a high proportion of raw material exports to machinery and equipment exports, with the reverse true for imports. By allowing increased Western contacts for people directly involved in the production process, the Soviets intend to improve access to Western high technology -- a prime objective of and prerequisite for Gorbachev's ambitious plans for improving the domestic economy through rapid advances in the machine-building sector. A more immediate objective of the restructuring may well be to recoup hard currency earnings lost as a result of weak export commodity prices, especially oil.

With this reorganization in the foreign trade sector, the Soviets seem to believe their trade structure will become more compatible formally with the international trade system, on which they are depending in part to bolster their multilateral political and economic objectives. Among the latter are their recent bid to participate in the GATT's new round of trade talks and their attempt become direct participants in shaping international trade in the next decade.

The thrust of the reorganization is consistent with Gorbachev's domestic priorities in restructuring the Soviet economy -- a combination of improved central control with greater autonomy at the lower level. Also, the Soviets have gone to some length to characterize the changes as ideologically correct, claiming they maintain the state's monopoly on trade while making their system more compatible with the international trade system.

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NLS MOI-010 #19

BY CK NARA, DATE 2/13/03

Operational Changes. The heart of the reorganization is increased autonomy for certain ministries and enterprises. In late September Moscow announced the establishment of guidelines for direct trading links between selected ministries and enterprises and Western firms. Effective January 1987, the new rules will permit some 20 ministries and 70 enterprises, as yet unidentified, to engage directly in importing and exporting without the intervention of the Ministry of Foreign Trade (MFT) or other economic organizations in Moscow. Additional enterprises may be added as they develop sufficient foreign exchange earnings. However, with respect to the larger Soviet economy, the changes planned thus far are limited. The bulk of Soviet economic entities are unaffected by the new guidelines. Planning and party authorities will retain their tight control over the Soviet economy.

The affected ministries and enterprises will be allowed to establish their own self-financing (khozraschet) foreign trade firms, authorized to seek foreign exchange credits from the foreign trade bank (Vneshtorgbank). The new guidelines will permit the affected organizations to use some portion of their hard currency export earnings to purchase imports from the West. These new rules also afford the selected enterprises more individual leeway to define their relationships, such as joint ventures, with Western firms. However, requiring these enterprises to produce for both the domestic and foreign markets poses problems with respect to self-financing, production levels and prices, which could delay actual operations under the new rules.

Organizational Changes. A new Foreign Economic Commission, chaired by a Deputy Chairman of the Council of Ministers, is being created to oversee the reorganization. Composed of the Ministry of Foreign Affairs (MFA), MFT and various economic organizations, it will serve to coordinate the activities of the entities involved in foreign trade. Although it is supposed to facilitate trade, the new Commission appears to be one more bureaucratic layer between foreign suppliers and domestic producers.

A new Administration for International Economic Relations, with responsibility for handling broad international economic issues, has been created in the MFA. Dr. Ivan D. Ivanov, well-known in the West as a reform-minded academic, has been appointed head of the new administration. In addition, the MFT is being reorganized from top to bottom as part of the effort to improve the efficiency of the foreign trade apparatus and to weed out corruption.

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Despite the guidelines' statement that the MFT and the State Committee on Foreign Economic Relations, in that order, will continue to exert a "control" responsibility over foreign trade, the MFA appears to be establishing a substantial role for itself. The MFT's own ineffectiveness has prompted at least some of the changes and it seems clear that it will lose several functions to the two new entities. Viewed together with the creation of the new MFA administration and Ivanov's appointment, it looks like that the MFA, not the MFT, will have the major policy-making role in Soviet international economic relations.

Personnel Changes. Personnel changes which tend to confirm MFA's ascendancy are in the works as well. For some time there have been strong hints that Foreign Trade Minister B. I. Aristov, a fading apparatchik - not a 'new ideas' man, will soon depart; the front-runner to replace him is MFA First Deputy A. G. Kovalev. Ivanov is a likely candidate for a deputy position in the new Foreign Economic Commission, and that its new chairman is V. M. Kamentsev, recently appointed Deputy Chairman of the Council of Ministers.

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Soviet Interest in GATT Membership

Historical Background. The General Agreement on Tariffs and Trade was drawn up in Geneva in October 1947. The Soviet Union did not participate in the work of the International Trade Organization Preparatory Committee, nor in the rounds of tariff reductions negotiated in the 1940s and 1950s or in the Kennedy Round which was concluded in 1967. Participation in these negotiations was limited to GATT Contracting Parties (CPs) and those countries negotiating accession to the GATT. Although the Tokyo round of Multilateral Trade Negotiations (1973-79) was open to all interested countries, the Soviets chose not to take part. Since 1979, and prior to the most recent overtures, Soviet officials have made periodic informal contacts with U.S. and other GATT CPs to explore receptivity to Soviet participation in GATT affairs. In each case, the Soviets were met with a distinct lack of enthusiasm, and interest abated.

Recent Overtures. The most recent overtures began in April and May of this year. At that time, Soviet officials in a number of CP capitals raised the issue of possible Soviet observership in the GATT. The Soviet Commercial Minister in Washington called at USTR and the Departments of State and Commerce to renew expressions of Soviet interest in GATT observership. A short time later, in Moscow, the Soviet Foreign Trade Ministry called in a number of the USSR's trading partners to make a presentation on why the USSR should be more active in the GATT. The following points were made at these presentations:

- the USSR has a great interest in observing the New Round negotiations in order to gain experience with GATT procedures;
- the USSR wants to move its economy more into the framework of international economic relations and would use GATT observership to "review what changes need to be made in the Soviet economic structure to qualify for full membership;"
- the USSR has an important stake in the international economy and should have observer status in the GATT to monitor world trade developments which affect Soviet interests;
- the USSR believes closer association with the GATT would help expand trade with GATT members;
- Soviet interest in the GATT is "100 percent economic"; and,
- (with selected countries) the presence of the USSR in the GATT would protect the interests of smaller GATT CPs from the United States, which "runs roughshod" over their interests.

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Participation in the Uruguay Round. In mid-August 1986, the USSR sent a note to the GATT Secretariat announcing a desire to participate in the New Round talks. They stated that such participation would help them gain experience leading towards a decision on accession in light of the ongoing re-organization of the Soviet economy which provides for increased autonomy and responsibility of enterprises in their business relations. This request was also conveyed bilaterally to our Embassy in Moscow in early September.

The Ministerial Declaration approved by GATT CPs at Punta del Este provides for terms of participation that, in essence, limit participation in the negotiations to current CPs, countries already in the process of negotiating accession, and LDCs that initiate accession negotiations by April 1987. These criteria exclude Soviet participation in the Uruguay Round.

GATT CP Reaction to Recent Soviet Overtures. A majority of developed GATT CPs oppose Soviet involvement in the GATT, either as observer/applicants or in the Uruguay Round negotiations. Australia would not oppose Soviet participation in the new round. Switzerland has taken no position. GATT non-market economy (NME) CPs are on record as supporting Soviet involvement. India favors Soviet participation, and some LDCs are ambivalent or mildly supportive. There are also reports that the EC would exchange support for USSR GATT participation for diplomatic or trade concessions.

NMEs and the GATT. The participants in the original GATT negotiations drafted the contractual obligations of the GATT from the perspective of market economy countries whose trade responds to changes in prices that are determined by supply and demand. This orientation towards a free enterprise economy is inherent in the GATT's basic provisions. State trading was seen as an exceptional situation; GATT Article XVII requires that state-trading enterprises not discriminate in their foreign trade.

Nevertheless, several NMEs are members or observers in GATT. Czechoslovakia and Cuba were members before they became Communist states; Poland, Hungary and Romania joined more recently. Bulgaria is an observer. China, an observer now, has formally applied to resume the seat vacated by Taiwan in 1950. The United States ceased to apply the GATT to Czechoslovakia in 1951. The trade embargo with Cuba renders most GATT obligations between the U.S. and Cuba. The U.S. denied most favored nation treatment to Poland in 1981 and, under the terms of the Trade Act of 1974, grants it on a year-to-year basis to Hungary, Romania and China. In carrying out its trade policy, the U.S. considers Yugoslavia a market economy.

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EC-CEMA Relations

Overview. On-and-off negotiations since 1973 between the European Community (EC) and the Council on Mutual Economic Assistance (CEMA), as well as between the EC and individual CEMA members, may be entering a decisive stage. Soviet leader Gorbachev's willingness to treat the EC as a political entity and to allow CEMA countries to have bilateral ties with the EC are key concessions that could lead to significant progress in EC-CEMA talks.

The earnestness with which CEMA (read the USSR) has pushed the process along this past year suggests that Gorbachev was not simply interested in form over content. It seems to represent a willingness to give up up a longstanding ideological position in return for greater political and economic access to the Community. This complements Soviet moves in other areas (especially finance) to become, or appear to become, more pragmatic, "responsible" players on the international commerce and finance scene. Recent Soviet efforts to get involved in the GATT also fit into this picture. The Soviets may hope to gain EC support, or at least a softening of the EC position, for Soviet entry into the GATT.

The Soviets are interested in having direct access to the EC decision-making process, participating in a forum which excludes the United States, obtaining West European technology, and CEMA's prestige. East European countries worry that the Soviets could use an EC-CEMA accord to crimp their ties with Western Europe. Some would like their own bilateral channels with the EC, linking EC economic concessions to diplomatic ties. The USSR and several of its bloc allies hold that EC-CEMA relations should precede links between the EC and CEMA member countries; Hungary and Romania in contrast clearly prefer direct dealings with the EC before multilateral ties with CEMA are realized.

Moscow's decision to allow individual CEMA countries to sign bilateral agreements with the EC represented a significant concession. It removed, at least partially, what had been a source of anxiety for bloc allies (especially those such as Romania and Hungary, particularly interested in commercial deals with the EC), namely that an EC-CEMA accord would allow the Soviets to control the dialogue between East and West Europeans more effectively.

In the EC, the Commission is especially interested in an EC-CEMA agreement, which would enable it to insert itself into East-West politics, traditionally the preserve of the EC-12. The Federal Republic of Germany, Italy, and the smaller EC states support the broader agreement, while the United Kingdom and France are less keen. Both the EC Commission and member states profess to be well aware of such pitfalls as Moscow's desire to use EC-CEMA relations to monitor West European ties with Eastern Europe. A major inducement for the EC member states to agree to an EC-CEMA accord would be the credibility gained by the Commission if it could demonstrate that at least two East European countries--Romania and Hungary are currently the most serious candidates--would establish diplomatic relations with the EC "within hours" of EC signature of a joint declaration with CEMA.

Underlying the complexity of organization-to-organization ties is the disparity between the EC and CEMA as institutions. The EC is a cohesive, independent entity with sweeping powers in the trade field. CEMA, in contrast, represents a hodgepodge of bilateral agreements; it is dominated by the economic, and political, might of the Soviet Union and falls far short of an effective multilateral economic organization.

The sequence of bilateral and multilateral recognition among the parties may prove critical to the outcome of the process. To be credible, the Commission's dual-track approach (bilateral ties with the East Europeans along with EC-CEMA ties) must show achievement with at least two East European countries before EC-CEMA mutual recognition. The USSR argues for EC-CEMA ties first. To varying degrees, this position is supported by the German Democratic Republic, Poland, and Bulgaria. The East Europeans have never seen it in their interest to have the USSR use an EC-CEMA accord to increase its control over relations between East European countries and Western Europe. Hence some of the East European countries may try to negotiate and even sign a bilateral accord with the EC before an EC-CEMA one narrows their room for maneuver.

Current Status

The EC Commission participated in an initial experts' meeting with CEMA in Geneva September 22-24 to discuss a proposed umbrella declaration which would establish relations between the two organizations. The CEMA team was headed by Deputy Secretary General Kurowski, while the EC team was led by a deputy office director. Commission negotiators had a mandate to agree on nothing -- not even a date for a second round (although one may occur before year end). The Commission did not table an EC-agreed draft declaration, and discussion focused on Community "questions" on the CEMA-proposed draft.

EC insistence that any agreement include a "territorial" clause (read a Berlin clause) met with unexpected resistance from CEMA negotiators. The EC also told CEMA counterparts that references to trade or commercial relations in the proposed declaration would have to be deleted. The Commission made clear that propagandist-style language on world peace should be deleted and that it wanted references to negotiation of agreements deleted. CEMA negotiators reportedly stated that CEMA members were free to negotiate commercial agreements and to establish bilateral relationships with the Community.

The Community is pursuing bilateral negotiations on economic cooperation agreements with Romania, Hungary, and Czechoslovakia. It is initiating talks with some of the other bloc states on possible bilateral arrangements. A cooperation agreement between the EC and Romania appears likely in the near future. This arrangement would expand somewhat the 1980 industrial-trade arrangement (the most comprehensive agreement signed to date between the EC and a bloc country). Romania is anxious to conclude an agreement with the EC lest an EC-CEMA accord reduce its room for maneuver on the bilateral front.

EC-Hungarian talks are stalled over trade concessions. Forty percent of Hungary's non-bloc exports go to EC countries, and the Hungarian Government has been pushing for (and the EC resisting) a trade agreement which knocks down some of the EC import restrictions that currently affect some 300 Hungarian agricultural and industrial products.

Background. The EC-CEMA dialogue stalled in 1978 after years of sporadic discussions, primarily because of Moscow's refusal to accept the EC Commission as spokesman for the EC. At the same time, the EC insisted that CEMA's structure did not parallel its own and that, under any EC-CEMA agreement, the EC as a whole would have to negotiate bilateral agreements with individual CEMA member states.

The dialogue received a shot in the arm when newly appointed Soviet General Secretary Gorbachev raised the issue with Socialist International President Willy Brandt and Italian Prime Minister Bettino Craxi during their visits to Moscow in May 1985, saying that Soviet attitudes toward the EC needed change. Moreover, Gorbachev cleared the way for talks by speaking, for the first time, of the EC as a "political entity."

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In June 1985 the CEMA Secretary General sent a letter to the EC Commission President Delors proposing a formal relationship between the two organizations. Subsequent exploratory correspondence from the Commission yielded a CEMA draft joint declaration (which was discussed at the September 1986 meeting between the two organizations). In December 1985 the Community approved a response to the CEMA overture. The response included separate letters (eventually sent in early 1986) to the CEMA Secretary General and to each state. In these letters the EC indicated its willingness to discuss establishment of ties with CEMA provided ties were also established between the EC and the individual members of CEMA. By June 1986 the CEMA secretariat and each CEMA member had replied indicating a willingness -- albeit with different nuances and priorities -- to proceed with the EC's "dual track" approach. Subsequent contacts between the two organizations resulted in the September 22-24, 1986 meeting.

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Soviet Initiatives Toward IMF Membership

At a conference in the Soviet Union in July, Soviet academics told their U.S. counterparts that the Soviet Union should consider seeking membership in the IMF. IMF membership would allow another point of access to the international financial community as the Soviets seek to manage the recent decline in hard currency earnings and pursue Soviet leader Gorbachev's modernization efforts. However, Ivan Ivanov, head of the newly created International Economic Relations Department of the Foreign Affairs Ministry, said in August that the Soviet government is taking no steps toward applying to the IMF.

If the Soviets were to seek membership and succeed, there is little doubt that Soviet membership would result in a significant diminution of U.S. influence in these institutions. Based on the size of their economy and level of trade, the Soviets would gain a sizable quota which would translate directly into significant voting power -- to the detriment of the United States. The percentage of total votes controlled by the United States would drop and the Soviets could leverage their voting share to greater influence by encouraging bloc voting with third world and other socialist member countries. The potential for the "politicization" of both institutions would thus rise sharply. In the United States continuing financial support for the IMF might erode in Congress.

If the Soviets were in fact to seek membership, they would have to weigh the gains in influence and status made by joining the IMF against their reluctance to provide the economic information that would be required. The Soviet sense of secrecy in such matters would probably preclude any substantial movement toward a formal application.

If the Soviets did make a serious attempt to join the IMF--or World Bank--the United States alone would be hard pressed to keep them out. The United States cannot veto a Soviet application.

Expanded Soviet Participation in International Financial Markets

Under Gorbachev the Soviet Union has expanded its ties to the international financial markets significantly, diversifying its sources of funds and increasing borrowings. This development is probably a function of three factors: 1) need for new sources of hard currency as oil export earnings decline. 2) the present participation within the international community, and 3) recognition that participation in western financial markets is a potentially lucrative avenue for gaining economic information of intelligence value.

The Soviets responded to the decline in hard currency earnings in 1985 by reducing imports by 5 percent and increasing sales of gold by \$800 million to \$1.8 billion. Hard currency borrowings also rose by \$6 billion, raising the level of net debt to over \$14 billion.

Similar efforts can be expected in 1986. The Soviet Foreign Trade Minister Aristov has indicated that western imports could fall by 25 to 30 percent. The Soviets have already concluded numerous long term syndicated loans worth \$1 billion in 1986, three of which were over subscribed. The Soviet Union can be expected to borrow \$1-2 billion per year over the next few years.

Increased gold sales have the best potential for a significant increase in revenues. In the first quarter of 1986 the Soviets sold 100 tons of gold (75 tons in direct sales to the Japanese government) totaling \$1.1 billion. The Soviets may try to increase direct sales and bilateral gold swaps to avoid dealing in the international gold exchanges. One of the Soviet's wholly-owned western based banks, Moscow Narodny Bank (MNB) in London, has been ordered to sell as much gold as possible short of allowing the price to drop. According to some analysts the Soviets could sell as much as 450 tons this year without affecting market prices, and thereby raise at least \$3 billion.

The Soviets can also be expected to follow a plan of segmenting the financial markets through borrowings from a variety of sources. This would both obscure their debt position and prevent their credit rating to slip in any one of the available markets. No one source will provide the Soviets with a large increase in funds. Moreover, exploiting them will require a high, sustained level of flexibility and sophistication.

Third party borrowings involving Soviet owned banks in the west could increase the Soviet's access to hard currency funds. Through a series of complicated transactions involving non-BIS banks, Soviet-owned banks in the west could borrow funds in the interbank market that would ultimately show up as deposits of the Soviet Union. No evidence exists that the Soviets have made significant use of this source of funds. Given the Soviet Union's high credit ratings, such short-term borrowings don't provide significant amounts of lower interest credit compared to standard long-term syndicated loans.

Another example of the Soviet's increased sophistication in the international capital markets is demonstrated in the increased use of ECU denominated borrowings in 1985. Such loans help cushion against the swings in an erratic foreign exchange market.

The Soviet Union is also increasing its activity in the forfait market using indirect supplier credits. This secondary market allows western exporters to sell Soviet issued notes for a discount in exchange for immediate cash payment.

The Soviets have also used clearing account arrangements with other non-CEMA nations willing to pass on hard currency imports for credit on such accounts.

In the area of the Eurocurrency markets, the Soviets recently helped underwrite a syndicated bond offering in which it assumed about \$3 million worth of the total of \$100 million. This reflects an acknowledgment by Soviet Foreign Trade Bank officials of the need for Soviet-owned banks to remain active in the international capital markets on the investment side to maintain the viability of these banks. Although the Soviets have yet to issue any instruments in western financial bond markets, recent information point to a possible Soviet dollar or yen denominated bond offering in the Japanese markets.

In order to better take advantage of the range of financing options available, the Soviet Union is seeking to increase its participation in international financial markets through foreign based financial entities. The Soviets are reportedly interested in establishing a joint Soviet-Arab bank in Bahrain as well as joint banking operations in Kuwait (which is presently negotiating with the Soviet Union a \$150 million loan) and in other important financial centers. The Soviets are also attempting to increase ties to western bankers through consultations and investment banking relationships to provide Soviet personnel experience in portfolio investment.

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Despite the Soviet's best efforts, it is not likely that they will be able to generate much more than an additional \$1.5-3 billion in hard currency revenues, all but \$500 million from gold sales. Reducing hard currency imports will be necessary to make-up the better part of the \$6 billion hard currency export earnings shortfall the Soviet Union will face in 1986. Soviet reluctance to increase borrowings beyond the levels indicated represent the Soviet's concern to maintain a high credit rating among western bankers and to avoid even the perception of dependence on the west for financing. The balance can be made up through suppressed imports of non-critical goods.

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Settlement of UK-Soviet Financial Claims

On July 15, 1986 the Soviet Union and the United Kingdom signed an agreement settling outstanding claims by both parties arising before 1939. Under the agreement both sides waived their respective claims, thus unlocking 45 million pounds from a frozen Russian account in the United Kingdom to settle 400 million pounds in private UK claims arising primarily from Tsarist bonds issued before October 1917. United Kingdom claimants may receive as little as 10 percent of the value of outstanding claims.

Another 2.65 million pounds were released to the Soviet Union from a separate account used to handle diplomatic expenses.

Initial speculation was that this agreement was a precursor to active Soviet participation in the London Eurobond market. Except for a small participation in a syndicated bond offering by a Finnish entity (see below), the Soviets have yet to make an offering of their own in the bond markets. Within recent days the Soviets have indicated an interest in exploring resolution of outstanding defaulted bond claims in the United States.

Soviet Interest in Joint Ventures

Current Soviet interest in "new forms of economic cooperation" with foreign firms, including joint ventures, surfaced in endemic problems of the Soviet economy and the sharp reduction in ventures appears to have been made at the top earlier this year, the Soviets are far from decided on how to proceed. Therefore, Soviet plans for joint ventures will become known only as decisions are made over the next several years. (U)

Most of what we know comes from reported statements by Soviet officials to foreign businessmen and government officials. The of September 24, 1986, "On Measures to Improve the Management of of new forms of economic relations with firms in capitalist countries, including cooperation in the scientific, technical, and productions fields, and the setting up of joint enterprises," but provides no further details. Considerably less attention is given to cooperation with Western firms, in fact, than to joint ventures with enterprises of CEMA countries, which are covered in a companion resolution.

Efforts to implement the joint venture decision have proceeded on two parallel tracks to date.

On the one track have been the analytic efforts of key government bureaucracies which are garnering information about joint venture and drafting regulations for Politburo approval. Three competing Committee on Science and Technology, and the State Planning Committee--have been talked with analysis and, possibly, drafting of legislation. Presumably, the newly established state Foreign Economic Commission of the Council of Ministers will now have a hand in the issue also.

Requests for information and recommendations went out to Western business organizations (such as the U.S.-U.S.S.R. Trade and Economic Council and the U.S. Department of Commerce). Presumably, analyses also are being made of the Yugoslav, Chinese, and East European experience, among whom only the East Germans have not adopted a joint venture law.

On the other track, the Soviets have been inviting proposals from Western firms for joint ventures. Officials at the Soviet Trade Representation in the United States believe that drafting of a of a joint venture law and negotiations with Western companies will proceed in parallel. Western company proposals would provide a pragmatic guide against which to measure and decide among regulations being proposed by the Soviet bureaucracies and also would provide "instant success" for the regulations once promulgated. Without adoption of regulations, however, projects are unlikely to get beyond the proposal stage.

The Soviets have expressed interested in entering into joint ventures both in the U.S.S.R. and abroad. The latter already have some precedent, such as the Soviet-American fishing joint venture Marine Resources, and would require far less adjustment to their economic system than internal ventures.

Domestically, the Soviets are likely to seek joint production and marketing arrangements with Western companies involving some sharing of managerial responsibility. They may even enter into joint ventures, which are commonly defined by experts as involving three elements: joint management, joint capital contribution, and risk/profit sharing. Any joint venture arrangement is likely to be a contractual joint venture, in which rights are established by contract rather than by ownership. Equity joint ventures, in which foreigners own elements of the enterprise, are not possible under the Soviet constitution.

According to Soviet announcements, a foreign partner will be able to have capital participation up to 49 percent, eligibility for tax concessions, the ability to repatriate or reinvest profits, and the opportunity to exercise managerial and quality control. The Soviet partner will have to be an "approved enterprise." They will probably be selected from the more than 20 ministries and 70 enterprises which are to have the right to engage directly in exporting and importing as of January 1, 1987. Joint ventures are supposed to be free of the national economic plan and are to operate in a "balanced manner" (probably meaning that hard currency earnings will have to equal imports paid for with hard currency).

Soviet officials have reportedly told some Japanese companies that they hope to conclude joint venture agreements by the fall of 1987. Before that, however, a myriad of complex decisions concerning capital contribution, management, taxation, pricing, labor and wages, materials supply, financing, and marketing need to be made. In view of their uncertainty as to how to proceed and the reorganization of foreign trade now getting underway, it seems likely that it will be several years before joint venture agreements are concluded on any scale.

Soviet Motivations. While the Soviets discussed joint ventures in the late 1970's, their interest was never great, largely because they felt their economy was doing fine and because rising prices for energy exports made it possible to maintain the level of imports they desired. Now, because of a sharp decline in export earnings resulting from the fall in oil prices, there is a dramatic new need for the Soviets to increase exports, and to substitute for imports. In contrast to the 1970's, there is also a widespread conviction that the economic mechanism needs significant change.

During the 1970's, Soviet leaders referred repeatedly to the need to make a transition from being an exporter overwhelmingly of raw and semiprocessed materials to an exporter of manufactured goods. They desired the higher prestige accorded to exporters of industrial goods, as opposed to fuels and materials, and the advantages which they perceived accruing to exporters of value-added goods. Yet they did virtually nothing, and the structure of their exports did not change over the last fifteen years. Reportedly, the Soviets plan to exclude raw material extraction from joint ventures, and are trying to focus on ways to increase exports of manufactured goods for hard currency.

In the past, the Soviets have acquired production capacity through purchase of equipment, technology, licenses, entire turn-key plants and compensation deals. Turn-key plants provided them with equipment, technology, and start-up assistance. Compensation deals, such as the fertilizer exchange arrangement with Occidental Petroleum, provided turn-key plants, credits for the purchase of the plants, and export earnings to repay the credits and cover further purchases of plant and materials from Western companies.

In many cases, however, imports of Western equipment and technology did not lead to the increases expected by the Soviets in exports of manufactured goods, or modernization of products. Sometimes, when the end product went into production it was already outdated by Western standards, there were no marketing channels for it, or the products became subject to dumping charges.

Undoubtedly the Soviets hope that the quality, sophistication, and modernity of the production technology that they acquire from the West will be higher in a joint venture, where the foreign partner has a stake in the enterprise using it, and that the Western partner will be motivated to update that technology over time in order to maintain the competitiveness of the enterprise. Joint ventures also could allow the Soviets access to technological and managerial know-how that are not easily transferred through equipment sales.

There are other motives as well for the Soviets. They probably hope that investment by Western companies will provide another source of capital for them. Joint ventures also fit in with their hopes for encouraging Siberian development and expanded economic activity in the Pacific Basin, where for ten years they have been pursuing a Sakhalin oil and gas development project with the Japanese. Improving the availability and quality of consumer goods also may be sought in this fashion, with one report suggesting that the main thrust in joint ventures will be consumer goods.

The move to joint ventures is thus the next stage in the Soviet search for more productive interaction with Western companies. Whether it will answer any better than the earlier arrangements or be any more successful in attracting Western producers than have Eastern European attempts will depend on how far the Soviets are willing to open their economy, how attractive conditions will be for Western companies, and the policies of Western governments.

Policy Questions for Soviets. The Soviets will have many problems to solve in meshing joint ventures with their economy. For example, potential Western partners will want to have access to the Soviet market, and the Soviets will have to decide how to allow joint ventures to compete with domestic concerns.

Many of the qualities of a successful joint venture are at odds with traditional Soviet philosophy and way of doing things. True joint ventures require adaptation of foreign ideas and methods of management and marketing. Large joint ventures with foreign partners sharing in decisionmaking would create a significant degree of contact between foreign company officials and local managers and, possibly, workers, something Soviet decisionmakers have gone to great lengths over the years to avoid.

The key to success for joint ventures in the Soviet Union will be the degree to which the Soviets are willing to allow the ventures decisionmaking freedom and direct contact with Soviet workers and enterprises. Since this is in conflict with Soviet ideology and past practice, it will be difficult for the Soviets to allow the extent of change needed. The Soviets probably are not cognizant of the importance of this point, and may be dismayed when they discover what will be required to persuade Western firms to conclude significant joint venture agreements. Without significant pressure from the highest levels, they are likely to offer only reluctantly and gradually some of the incentives and features foreign firms will want.

Response from Western Firms. The full-scale of Soviet approaches to Western firms is not known. Among firms reportedly approached were: a Danish firm for a textile production joint venture in Estonia; a Western firm of unknown nationality for processing of Soviet titanium sponge; Japanese firms for joint ventures in lumber, cutting-tool production, fisheries products processing, and production of rice based snack foods; and American firms in chemicals and agri-business. A joint venture for paper making reportedly already has been concluded with a Finnish firm, although from the sketchy information available it may be more of a compensation deal than a true joint venture.

Many of the Western companies operating in the Soviet market are likely to be willing to discuss joint ventures with the Soviets. They will probably consider this necessary if they are to maintain good relations with Soviet purchasers in order to continue or expand their export sales to the Soviet market.

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Firms are likely to proceed quite slowly, however, in actually concluding joint venture agreements which involve investment of significant company resources. They will have to make comparisons with investment opportunities elsewhere and consider political uncertainties. With the Soviets, companies will be starting from scratch in designing arrangements for joint management, repatriation of profits, sharing technology, marketing outside the plan in the domestic market, valuation in convertible currency of foreign and domestic inputs, limited liability for foreign partners, and free trade zones.

Western firms have responded in a very limited manner to invitations from Eastern European countries to participate in joint ventures. As a result, joint ventures in Eastern Europe have not brought about increased flow of technology or capital.

Negotiations of joint venture agreements will probably be protracted, and only small ones are likely to be created at first. At least initially, the Soviets will offer very little, and they will demand a great deal, such as substantial export performance clauses. As a result, Western companies probably participate on only a limited basis. The first agreements will probably be signed by companies whose leaders have a special interest in the Soviet market and encouragement from their governments.

Soviet Contacts with Western Governments. The Soviets have mentioned their interest in joint ventures to government officials in several Western countries, including the United States, Japan, and Sweden. Generally, Western officials have expressed interest in Soviet intentions, without stating support or opposition.

Under Secretary of Commerce Bruce Smart emphasized that the Soviets should limit their consideration of joint ventures to non-strategic areas, when he met in September with U.S.S.R. State Committee for Science and Technology deputy chairman Kirill Dyumayev. In response to an earlier Soviet request, Commerce provided the them with some Departmental publications on the international climate for investment, methods for attracting investment to local communities, and U.S. foreign trade zones. Commerce reminded the Soviets that firms conducting operations in the United States would have to comply with applicable U.S. laws and regulations, including those governing transfer of technology and equipment.

As Soviet consideration of joint ventures continues, the United States and other Western countries will need to ensure that consideration of joint ventures by Western companies does not undercut policies designed to prevent export to the U.S.S.R. of strategic technology and imports at less than fair value.

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A review will be required of relevant U.S. policies, laws, and regulations, such as travel controls; policy on Soviet purchase of property in the United States; Export Administration Act and Export Administration Regulations; Department of Defense Industrial Security Program; import legislation and procedures; and financial controls.

A review of experience with joint ventures in Eastern European countries and China will help to assess the outlook for joint ventures in the Soviet Union and what is needed for effective administration of strategic trade controls and import controls.

The USSR's International Economic Security Initiative

Soviet Foreign Minister Shevardnadze's 23 September address to the United Nations General Assembly included as strong pitch to establish a new, comprehensive system of international security--the Soviet theme that ties together all of Gorbachev's disparate disarmament and foreign policy initiatives. Included in the Foreign Minister's speech is a call to establish economic vehicles to channel assistance to Third World countries and to develop a global scientific and technical cooperation program. Both efforts presumably would be carried out under UN auspices. The Soviets have formally introduced a proposal to this effect for consideration at this years UNGA. Economic security, however, is only one small element in the proposal--the reference to it is vague and debt is the only area specifically mentioned.

The Soviets first broached their ideas about an economic security initiative in general terms at the United Nations last year. On 17 December 1985 they achieved passage of a UNGA resolution requesting the Secretary General to prepare a study on a system for international economic security to present at the 42nd General Assembly in 1987. At ECOSOC at Geneva in July they submitted a resolution calling upon the Secretary General to identify in that study concrete problems and to propose action-oriented recommendations for dealing with them. Only Syria cosponsored and most developing countries seemed unenthusiastic.

Soviet interest in pursuing a multilateral approach to global security problems stems form ideas detailed in Secretary General Gorbachev's report to the Party Congress last February. Unfortunately, the Foreign Minister's UNGA statement sheds no additional light on the Soviet proposal beyond what was offered last February. As outlined by Gorbachev, the security initiative has four elements:

- o A military sphere calling for renunciation by the nuclear or conventional war, a variety of arms control agreements, and a mechanism to effect proportional, balanced reductions in military budgets;
- o A political framework for confidence building measures and Helsinki type agreements to ban the use of force in international relations, and drawing up effective methods for preventing international terrorism;
- o A humanitarian component to provide a vehicle to combat "apartheid and fascism" as well as an apparent willingness to resolve family and other human rights cases;
- o An economic segment to establish a system of equal economic security, remove economic blockages and handle economic sanctions, and create vehicles to handle the international debt problems. Included in this proposal is an effort to draw up principles to govern the use of part of the funds released from military budget reductions to provide LDC's some economic relief.

None of these ideas is new. For the economic items, the Soviets simply have resurrected outdated north-south themes--areas where Soviet economic interests are small and the prospects for political visibility are high. By weaving them together in one overall framework, however, the Soviets are trying to create an illusion of newness and to lend concreteness to what Gorbachev calls "new political thinking" embodied in a series of proposals dating back to early 1986. The Shevardnadze speech is the most recent opportunity for the Soviets to plug their proposed security program. The regional and functional proposals that encompass Moscow's program include:

- o The 15 January plan for the elimination of nuclear weapons by the year 2000;
- o Shevardnadze's mid January letter to the UN calling for a worldwide congress on the problems of economic security, subsequently reiterated in Gorbachev's party congress speech;
- o The April Soviet statement on the Asian-Pacific Region which called for confidence building measure and a reduction of naval activities in the Pacific, supplemented by the Secretary General's Vladivostok proposal;
- o The 11 June "Budapest" proposal for conventional disarmament in Europe;

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- o The 11 June letter to the UN Secretary General outlining a Soviet plan for a new world space organization and a "star peace program"
- o The Foreign Minister's 8 July letter to the UN proposing an international conference on the Mediterranean and a negotiated withdrawal of the US and Soviet fleets.

It remains open how serious the Soviets are about pushing their economic security initiative. Soviet officials privately have portrayed the proposal as a responsible initial bid to move economic issues of concern to Moscow into the international arena.

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fundamental policy changes to make this system GATT compatible makes their admission to the GATT unlikely. (S)

-- Soviet interest in the IMF/IBRD is still academic, but U.S. policy should be to block such an application if it occurs. Although the Soviets, who in the past have been hostile to these institutions, are unlikely to be willing to participate in the exchange of information that is an essential part of membership, the U.S. should be alert to further Soviet actions in this area, and be prepared to take such measures to deny Soviet membership.

(S)

We already know we have a serious problem that ^{may} will require changes in U.S. and other Western laws and regulations, as well as changes in Soviet policies and practices, even given the current level of Soviet and East European joint ventures and turnkey plant operations in the U.S. and other Western countries. Approval of joint ventures is fraught with major problems from the U.S. and Western perspective, that we need to explore and resolve, before we proceed, and any solutions must be consistent with U.S. and other Western national technology security needs, and our COCOM obligations.

(S)

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NLS MOI-010 #29B

BY CIS NARA, DATE 2/13/03

REQUEST FOR APPOINTMENTS

Steve

To: Officer-in-charge
Appointments Center
Room 060, OE0B

Please admit the following appointments on Monday, November 24, 1986
for Stephen I. Danzansky of NSC
(NAME OF PERSON TO BE VISITED) (AGENCY)

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NLS *M01-010 #29C*
By *CLS*, NARA, Date *2/13/13*

<u>State</u>	<u>DOB</u>
Allen Wallis	11/5/12
Robert Clarke	4/27/42
Nicholas Burakow	10/11/49

<u>Treasury</u>	
James Griffin	12/25/26

<u>Defense</u>	
William George <i>Dv ZaKheim</i>	6/27/27
<u>Commerce</u>	

Louis Laun	5/19/20
Frank Vargo	3/11/42

<u>USTR</u>	
Alan Woods	10/13/45

CIA



MEETING LOCATION

<u>Building</u> <u>White House</u>	<u>Requested by</u> <u>Patricia Battenfield</u>
<u>Room No.</u> <u>Situation Room</u>	<u>Room No.</u> <u>365</u> <u>Telephone</u> <u>4985</u>
<u>Time of Meeting</u> <u>4:00 p.m.</u>	<u>Date of request</u> <u>November 24, 1986</u>

Additions and/or changes made by telephone should be limited to three (3) names or less.

APPOINTMENTS CENTER: SIG/OE0B - 395-6048 or WHITE HOUSE - 456-6742

I. Reorganization

A. Foreign Economic Commission (FEC) -- Oversee ministries and enterprises to allow direct import/export without Min. of Foreign Trade.

B. Admin. for International Economic Affairs -- in MFA -- Ivan Ivanoff.

C. State Commission for Economic Group (GKES) oversee joint ventures.

II. Analysis/Conclusions

A. Soviets driven by

1. global role in economics
2. increased access to technology
3. offset hard currency declines: '84 = \$34 billion
'86 = \$24 billion
4. diversify sources of funds
5. export shift from natural resources to industrial finished products.

B. Evidence

1. GATT
2. World Bank/IMF
3. Soviet trade reorganization
4. international financial market activity
5. EC/CEMA talks
6. Soviet venture activity

C. Future activity

1. Generally cautious but steady
2. GATT: principal area -- prestige
3. IMF/World Bank -- disclosure a problem
4. International finance -- unlikely any large scale effort -- Soviet conservatism
5. EC/CEMA -- minimal gains

D. Past history

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NLS MOI-010 #29 D
BY CIS NARA, DATE 2/13/03

1. Soviet participation only useful where they share U.S. goals. Usually disruptive.

2. Increased KGB activity by additional Soviet officials in USA.

3. joint ventures

a. give access to technology

b. pressure for COCOM relaxation

c. third country joint ventures give Soviet access to technology without transfer to Soviet Union.

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FROM ZOELICK, R

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KEYWORDS: USSR

INTL FINANCE

KEMP, JACK

CONGRESSIONAL

BAKER, J

SUBJECT: BAKER LTR TO KEMP RE SOVIET MEMBERSHIP IN WORLD BANK

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(C)



THE SECRETARY OF THE TREASURY
WASHINGTON

8419

November 21, 1986

NOTE FOR ALTON G. KEEL, JR.
DEPUTY ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS

FROM: Robert B. Zoellick *RB*
Executive Secretary and Special Advisor

SUBJECT: Secretary Baker's Response to Representative Kemp on
U.S.S.R Participation in the World Bank

Per your discussion with Secretary Baker this morning, I have attached a signed version of his letter to Mr. Kemp, for your information. (I also have attached a copy of Mr. Kemp's letter.)

Attachments

Copy to: W. Robert Pearson ✓
Deputy Executive Secretary



THE SECRETARY OF THE TREASURY
WASHINGTON

November 21, 1986

Dear Jack:

This is in response to your letter requesting a clarification of the Administration's view on Soviet membership in the World Bank.

Your letter correctly points out that the Soviets have not applied for World Bank membership. I know that you are aware that before a country can become a member of the World Bank, it must first become a member of the International Monetary Fund. The Soviets have not applied for membership in the IMF either. In my view, the Soviet Union would be unlikely and unwilling to comply with membership requirements of either institution.

In addition, I share your view that Soviet membership would not be in the best interest of the United States or the World Bank.

Accordingly, the Administration would oppose Soviet membership in the IMF and the World Bank and would work actively within their respective Executive Boards to this end. I hope this clarifies the Administration's position.

Sincerely,

James A. Baker, III

The Honorable Jack Kemp
U.S. House of Representatives
Washington, D.C. 20515

JACK KEMP
31ST DISTRICT OF NEW YORK

COMMITTEES:
APPROPRIATIONS
SUBCOMMITTEE:
FOREIGN OPERATIONS
RANKING MEMBER

BUDGET

Congress of the United States
House of Representatives
Washington, D.C. 20515

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BUFFALO, NEW YORK 14203
(716) 848-4123

484 S. MAIN STREET
GENEVA, NEW YORK 14456
(315) 789-3360

November 7, 1986

Mr. James Baker
Secretary of the Treasury
Department of the Treasury
15 th Street and Pennsylvania Avenue, NW
Washington, D.C.

Dear Jim,

Recently, our good friend World Bank President Barber Conable said in an interview with reporters that the Bank "would be happy to explore" a membership bid from the Soviet Union.

I hope that this statement does not signal any intention on the part of the United States to change its current position on Soviet membership in the Bank.

Up to this point, the reaction heard most often from both Bank and Administration officials to the membership issue is that the Soviets have not yet applied, or that they have not yet shown a willingness to comply with the disclosure of economic information requirements of the Bank.

But the matter of the Soviet Union becoming a member of the World Bank goes far beyond statistics or forwarding an application. Soviet actions at the United Nations and other multi-lateral institutions, and their record of aggression abroad and oppression at home make it clear that membership would neither be in the interest of the United States or the Bank:

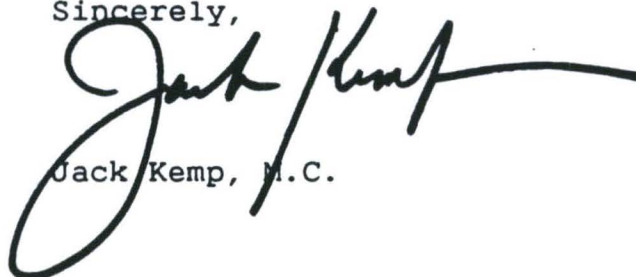
- 1) Membership in the Bank could give the Soviet Union direct access to credit, or access to credit through client states, to finance their continuing military buildup and their aggression in Afganistan, Central America, Africa, and Asia. Access to credit would also give the Soviets an economic lever to loosen ties between the United States and the Atlantic Alliance.
- 2) Once in the Bank, there is great probability that the Soviets would seek to disrupt the Bank by acting as the ringleader of an anti-democratic and anti-market coalition that could seriously threaten the economic and political stability of both developed and developing nations.

- 3) Given the nature of the Soviet economic system, membership could mean the end of the pro-growth, market-oriented program that you first outlined in Seoul, Korea. Although the pace is somewhat slow, it is clear that the Bank has become more receptive to these reforms over the past year. More importantly, country after country has begun turning away from Soviet style socialism and towards a market oriented system. The Soviets cannot be expected to support these reforms; it's clear that they would actively oppose them.

Jim, as one of the President's ablest and strongest supporters, you have worked long and hard within the Administration and on Capitol Hill to set the Bank on a course that will encourage the growth of democratic capitalism in the developing world. Soviet membership in the Bank can only reverse the considerable progress that's been made over the past six years.

For this reason, I urge you in the strongest possible terms to take the lead in clarifying the Administration position on Soviet membership. Silence on this matter can only lead to confusion about U.S. intentions, and will encourage the Soviets to believe that they can move forward in requesting membership.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Kemp", with a long horizontal flourish extending to the right.

Jack Kemp, M.C.

SOVIET Union (EJ) SOEC

Duhzansky

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United States Department of State
Bureau of Intelligence and Research

Intelligence Research Report

Gorbachev's Roots: A Retrospective of the Khrushchev Era

IRR No. 24 - September 11, 1986



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United States Department of State
Bureau of Intelligence and Research

(U) Gorbachev's Roots: A Retrospective of the Khrushchev Era

Intelligence Research Report

No. 24
September 11, 1986

Major Findings

Gorbachev's leadership style and some of his policies have their antecedents in an earlier era when Khrushchev, through policies aimed at political accommodation with the West and radical reform at home, sought to steer the Soviet Union onto a new course. Both leaders inaugurated their rule by downgrading a predecessor--Khrushchev in 1956 with his secret speech denouncing Stalin, and Gorbachev in 1986 with his denigration by innuendo of Brezhnev. The objective in each case was to gain a measure of authority and policy flexibility that only a break with the past and a reaffirmation of Leninism could give the new leader.

Khrushchev altered communist doctrine on war and revolution to include the concept that war is not fatalistically inevitable, a concept Gorbachev has expanded to embrace the thesis that international security is a global concern. Gorbachev's various arms control initiatives recall similar efforts by Khrushchev, all aimed at coming to an understanding with the West that the two systems could peacefully coexist. The Khrushchevian idea of coexistence emphasized class struggle, which gave Moscow license to support revolutions and subversion against the West yet avoid a major clash with it; Gorbachev downplays this aspect and emphasizes instead interdependence and cooperation. What this means in policy terms Gorbachev has not made clear, but his seeming lack of interest in the

international communist movement and his comparative lack of assertiveness in the Third World may point to a period of consolidating gains achieved instead of undertaking new ventures--without excluding the latter.

Gorbachev's internal reforms are proceeding in the apparent absence of a master plan and could lead to the same elusive quest for solutions experienced by Khrushchev, whose search for agricultural panaceas, experiments with decentralizing and recentralizing management, and liberalization and retraction on the cultural front caused such disarray. Gorbachev emphasizes hard work as the road to a better life--not in this five-year plan but at some point beyond. "Socialism by example," an enduring slogan, is today a less glowing proposition than in that earlier era when Khrushchev made patently unfulfillable promises about catching up with and surpassing the US.

Gorbachev may not face the same extreme crises in Eastern Europe that Khrushchev did, but he has drawn the same ultimate policy parameter--though more judiciously than Khrushchev--that socialism has come to stay in that region. If Soviet policy should countenance more economic liberalization there, it apparently would be at the continued price of political fealty to Moscow. While pursuing a rapprochement with China, Gorbachev will have to be content with a communist state that is part of the larger world socialist community and not of the "fraternal" socialist circle Khrushchev demanded.

Khrushchev presided over Soviet fortunes for roughly a decade before he was deposed by a gathering opposition that rejected his unpredictable policies and growing tendency toward one-man rule. Gorbachev is not as impulsive as Khrushchev but has shown no hesitation to proceed in the face of evident opposition. In time, however, obstructionists could also delay or derail some of his programs at home; unforeseen events could dictate policies at odds with his disarmament and peace campaigns abroad.

* * * * *

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The Historical Setting

Gorbachev, like Khrushchev, represents a new page in Soviet history. Abroad, he seeks a new strategy for accommodation with the West. At home, he has embarked on a major reform program touching all aspects of domestic life. His motivations, goals, and tactics as revealed thus far show both similarities and differences with the past. His vision of the future, sketchy though it is at this point, also is reminiscent of earlier times. His leadership style and the content of many of his policies seem to stem from the Khrushchev era.

Gorbachev's focus on improving relations with the West, especially the US, evokes the early Khrushchev years--roughly the mid-1950s--when Moscow made a decisive effort to overcome the anathema generated by Stalin's postwar policies. At that time, when the Soviet Union had only recently acquired the hydrogen bomb, Khrushchev was trying to formulate a world view that would both challenge the capitalist West and avoid a clash with it. It was not unusual for him to make statements that nuclear weapons had radically altered the environment in which political leaders had to function. "Must we, in this period of the flourishing of human genius which is penetrating the secrets of nature and harnessing its mighty forces, put up with the preservation of relations that existed between people when man was still a beast?" he asked--in rhetoric similar to that which has acquired such a prominent place in Gorbachev's discourse.

To pursue this new course, in 1955 the then-tandem leadership of Khrushchev and Bulganin inaugurated a number of approaches designed to create a new image of the Soviet Union as a respectable, peace-loving state. Instead of words alone, the two leaders made unilateral moves which, while involving no great sacrifice on the part of the Soviet Union, were startling because the Soviets seemed under no special compulsion to make them. They included agreement to an Austrian state treaty, a series of major disarmament proposals, reduction in the size of the Soviet armed forces, a rapprochement with Yugoslavia, agreement to withdraw from the Soviet base at Porkkala, Finland, and recognition of the German Federal Republic.

This "peace offensive" gathered momentum with the July 1955 Geneva summit, where the Soviet leaders sought to show that tension between the great powers had lessened and a new stage in international relations had been inaugurated. The ensuing

1956 denigration of Stalin, the doctrinal revisions denying the inevitability of war and posing the possibility of a nonviolent victory of communism, and the stress on peaceful coexistence were part of a design to show that communism was able to compete with the West on the basis of ideas rather than force. Soviet leaders became more accessible, exchanges of parliamentary, cultural, and scientific delegations and of tourism increased, along with a drive to cultivate Third World states through aid and trade programs--all aimed at changing the political climate and the image of the Soviet Union in Western eyes.

The Soviet invasion of Hungary in the fall of 1956 made a shambles of each of these efforts. After that Moscow was faced with the problem of restoring the mystique of an ever-advancing, crisis-free communist system, which Khrushchev had described at the 20th CPSU Congress in February of that year as "marching forward triumphantly without crises or upheavals." Efforts to overcome the image of a Soviet threat were totally shattered, and the new directions the Soviet leaders had mapped out were blurred for some time as Khrushchev ventured on a high-risk course that eventually led to the Cuban and Berlin crises, the fallout with China, etc. But that brief span gave an aura to the Soviet international image which subsequent Soviet leaders, even while rejecting Khrushchev, have intermittently tried to recreate.

A Break With the Past

Charting a new course often requires a decisive act to demonstrate a break with the past. Although the analogy should not be overdrawn, there is a parallel between Khrushchev's and Gorbachev's method of doing so. Destalinization began indirectly. After being slighted in a Pravda editorial on the eve of the 1956 Congress, Stalin was further downgraded at the opening of the session when the delegates were asked to rise in memory of comrades who had died since the last congress: Stalin's name was simply grouped with that of other communist leaders. Thereafter Stalin became the unnamed but unmistakable target of actual attacks, with condemnation of some phase of his activity or policy; his outright repudiation by Khrushchev came in a secret speech at the close of the congress on February 25, 1956. (The text of that speech, "Cult of the Individual and Its Consequences," was not to become available in the West until the following May, though rumors about it circulated soon after delivery.)

Soviet leaders since Khrushchev have avoided public comment on Stalin, but Gorbachev responded when a French journalist asked him about Stalinism during his visit to Paris in October 1985. Acknowledging the errors of Stalin's rule, Gorbachev

said the 20th Congress decisions on overcoming the Stalin personality cult had been a difficult test of party fidelity to Leninism, but it had been passed worthily and the proper conclusions had been drawn. Although perhaps unintentionally, his remarks generated speculation that Gorbachev in turn might do something similar toward Brezhnev at the then-pending 27th Congress. (Andropov and Chernenko as Brezhnev's immediate successors had continued the major lines of his policy during their brief tenures.)

A disavowal of Brezhnev had been hinted at earlier. At the June 1985 Central Committee plenum, Gorbachev had noted that past measures adopted for the economy were half-measures, inconsistent and not implemented to the full. The desire constantly to receive more resources without thinking of the consequences had become a "kind of style of work for certain party and administrative organs." The draft party program issued in October 1985, in discussing the advance of socialism toward communism, also noted the CPSU's dissatisfaction with the "dilatatoriness" and unfavorable tendencies that had been tolerated in the economy in the 1970s and early 1980s.

Gorbachev's censuring remarks to the 27th Congress (which he opened on February 25, 1986, the 30th anniversary of Khrushchev's secret speech) were indirect and impersonal, but by that time it was clear that they were directed at Brezhnev. He noted that difficulties in the economy had begun to mount in the 1970s, and he placed the blame on failure to make "timely political evaluations" of the economic situation. Speaking of the lessons to be learned, he invoked Lenin on the need to speak the truth and referred to the authority of the Central Committee, which he said--repeating the party program--had considered it necessary to "once again speak of the negative processes which emerged in the seventies and the beginning of the eighties." He continued this berating of past rule on his tour of the Soviet Far East in July, noting that discipline and order had been allowed to weaken in the past 10 or 15 years and that the leadership was to blame (he acknowledged that "all of us permitted it").

Although there has been no parallel to Khrushchev's secret speech, the dismantling of Brezhnev's rule apparently has continued in behind-the-scenes activities: Gorbachev made a speech, never published, to the Foreign Ministry in which an attack on corruption was a prominent theme; a secret "Manifesto," which purportedly was authored by a group calling itself the "Movement for Socialist Renewal" and which scathingly attacked ills of Soviet society inherited from the Brezhnev era, was leaked to the Western press (though perhaps not with Gorbachev's knowledge); and the French newspaper Le Monde published an

account of an alleged address on rooting out corruption by a candidate Politburo member to a Moscow party "aktiv" meeting. All of this has been accompanied by major administrative changes removing or retiring many Brezhnev-era officials.

Although different in conception and impact, the denigration of Stalin and Brezhnev had the same ultimate goals: to give the successor greater freedom of action, to affirm the Marxist-Leninist legitimacy of his rule, and to project an image of a Soviet Union which had broken with the past and was seeking new solutions to problems at home and abroad.

Back to Lenin

Breaking with the past has left Gorbachev, as it did Khrushchev, nowhere to go but back to Lenin. (He could hardly praise Khrushchev, a deposed leader, even if in some ways he emulated him.) Although every Soviet leader pays tribute to Lenin, the eulogies of both Khrushchev and Gorbachev represent a studied approach to guarding the legitimacy of their programs and methods of rule. Gorbachev, perhaps even more than Khrushchev, seems intent upon establishing himself in the eyes of his constituency as heir to Lenin, frequently citing Lenin as the source of his ideas and authority.

But Gorbachev does not want to be fettered by doctrine even though he proclaims his loyalty to Marxism-Leninism. He speaks of doctrine as being not a stereotyped theory of social development but as deriving its vitality from its "everlasting youthfulness, its constant capacity for development and creative generalization of new facts and phenomena." Any attempt to turn doctrine into ossified prescriptions valid everywhere and in all contingencies is contrary to the essence and spirit of Marxism-Leninism, he told the 27th CPSU Congress in February 1986.

Khrushchev also exhibited no special reverence for doctrine, although he always made a point of affirming its correctness. He saw Marxism-Leninism not as a straitjacket but as a tool to be applied creatively to the solution of contemporary problems. He, too, called for development of theory to further the struggle for communism. One should keep in mind, he told the 20th Congress, Lenin's teaching that:

"At different periods, different sides of Marxism come to the forefront. At present, when our society is struggling for high productivity of labor and for the solution of the basic economic task of the USSR, the economic side of Marxist theory--the questions of concrete economics--comes to the forefront."

Gorbachev carefully seeks party approval for his use of doctrine as a policy tool. For example, the subject received the attention of the Politburo in its July 24, 1986, session when that body apparently devoted considerable time to reviewing the work of the main Soviet theoretical journal Kommunist. The session concluded by adopting a resolution which noted the "exclusive importance" of the creative development of Marxism-Leninism for the successful implementation of the strategy of "acceleration" and for achieving a "qualitative new state of socialist society"--that is, Gorbachev's domestic program.

This justification for shaping doctrine to fit policy is aimed at defusing opposition from critics who see any change as a digression from the correct path. Gorbachev has been outspoken in his public allusions to "demagogues" who stand in the way of progress. At the same time, the lessons of the past are not lost on him: He has shown he is sensitive and cautious, stating in a recent speech that "we must seek the answers...not beyond the boundaries of socialism but within the framework of our system."

Summitry, Disarmament, and Peace

As part of his effort to give the Soviet image abroad a new face, Khrushchev promoted the revival of wartime summitry. Early in his tenure he called for a bilateral summit with the US, and he kept up the pressure for one until his trip to the US in 1959, always blaming the US administration for delays. He also initiated the idea of a meeting of world leaders to discuss global problems. He called for such a conference because he said a "calm and reasonable settlement of the differences between the Great Powers, or at least some of these differences, is the only way which we can take if we want peace and if we do not want the alternative--war."

The Four-Power (US, USSR, UK, France) Geneva conference of July 1955 launched the process. The Soviets hailed the "positive results" of that summit as an easing of international tensions, a beginning in the development of personal contacts and mutual confidence among leaders, and a start in the process of East-West negotiations. But Moscow's main purpose was not merely to establish an atmosphere but also to probe US attitudes toward basic questions of war and peace; the 1955 "spirit of Geneva" was a first step in defining basic differences and, if not in resolving them, at least in finding a way to coexist with them. The mood was reflected in an ever-rising flood of delegations and high-level visits, including in 1956 a Khrushchev/Bulganin trip to the UK and a visit of the French Premier to the USSR. Khrushchev even went so far as to offer the US a 20-year "friendship" treaty.

Gorbachev's agreement to a bilateral summit in 1985 after a six-year hiatus has some obvious parallels with Khrushchev's motives in the 1955-56 period--to begin a process of dialogue, to pressure the US on arms issues, to revive detente and demonstrate a Soviet policy of constructiveness, and especially to portray the Soviet leader as a world statesman. Gorbachev's call at the 27th Congress for a "direct and systematic dialogue" of world leaders--more specifically, for the five nuclear powers who are members of the UN Security Council to "gather at a round table and discuss what is possible and necessary to do to strengthen peace"--also recalls Khrushchev.

So does the propensity to take a grandstand approach to disarmament. Gorbachev's January 1986 proposal to ban nuclear weapons in stages by the year 2000 evoked recollections of Khrushchev's September 1959 proposal on general and complete disarmament. That also was to be achieved in stages--only four years rather than 15. It had been preceded by a series of Soviet disarmament initiatives, including an omnibus package at the 1955 Geneva summit which featured a number of confidence-building measures designed to end the cold war; unilateral Soviet reductions of conventional forces in 1956-57; and persistent calls for a ban on nuclear weapons testing. As with Khrushchev's initiatives, Gorbachev's January 15 proposal encompasses a whole range of arms issues; and like Khrushchev, Gorbachev sees his proposals as an opening gambit in a long-term arms control process. (Khrushchev noted in his general and complete disarmament proposal that the USSR was ready for partial measures if the West was not ready for complete disarmament.)

Khrushchev played up the danger of nuclear war as part of his campaign to gain international support for his various arms proposals even while he brandished Soviet military might in threatening statements about the global reach of Soviet missiles. There is a significant difference with Gorbachev: He avoids military boasts and threats, which he apparently realizes would only arouse the West and undercut his efforts to project himself as a man of peace. (One of the charges against Khrushchev at the time of his ouster was that he had engaged in sabre rattling.)

Peaceful Coexistence--An Evolving Strategy

To overcome the effects of the cold-war policies he inherited from Stalin, Khrushchev turned to the Leninist doctrine of peaceful coexistence. At the 1956 Congress he established the thesis that peaceful coexistence was the only alternative to nuclear war. Within this framework he revised communist doctrine on war and revolution. In contrast to previous apocalyptic visions of a final communist-capitalist

conflict, the Soviet leadership now declared that war was not fatalistically inevitable and could be averted, that communism could triumph without war and, in certain circumstances, through parliamentary means.

A typical Khrushchev formulation was:

"We are against war. We do not need war. Yet this does not mean we renounce the class struggle. We have always said, and say now, that the establishment of one state system or another in various countries is an internal matter for the peoples of these countries to decide. We do not interfere, nor intend to interfere, in the domestic affairs of other countries. But we have always said, and say now, that the class struggle cannot be stopped as long as there are exploiters and exploited--as long as there is capitalism."

Gorbachev's version, based on the 1985 party program, puts a somewhat different emphasis on the concept. He does not specifically disavow class struggle--a pillar of Marxist doctrine--but stresses instead the argument that the world faces such dangers now from nuclear arsenals that competition between the systems must take place under conditions of cooperation--in other words, interdependence limits the kinds of competition that can take place. "The realistic dialectics of present-day development consist in a combination of competition and confrontation between the two systems and a growing tendency toward interdependence of the countries of the world community," he told the 27th Congress. "This is precisely the way the contradictory and in many ways interdependent world is taking shape."

Recently he told a group of scientists in Moscow:

"We will either survive, cooperating and preserving the earth, ocean, sky, the entire environment, or we will bring civilization to a fatal end. We must rid ourselves of ideas whose time has passed, particularly that of seeing the world as one's domain."

Gorbachev has yet to demonstrate the significance this emphasis on interdependence may have in policy terms, but he has made the concept a hallmark of his foreign policy pronouncements.

As might be expected, Gorbachev's revision of the peaceful coexistence doctrine has already caused some problems for the ideologues. A few years ago V. V. Zagladin of the party's International Department held the doctrinaire position that solution of global problems was linked to elimination of the capitalist system and that the path to doing so was to unite

the "progressive and democratic forces" under the international worker movement. Now, in a roundabout way, he says that although a resolution of social contradictions can be achieved only as a result of class struggle--the struggle between capitalism and socialism--it is impossible to wait for socialism to be victorious everywhere and therefore it is necessary to find an "intermediate" solution. He then goes on to support Gorbachev's interdependence line.

The Third World--Shifting Priorities

Khrushchev never acknowledged, if he understood, the impossible contradiction posed for the noncommunist world by the idea of class struggle within peaceful coexistence. He developed the national liberation thesis to match the opportunities presenting themselves in his day with the breakup of colonial empires; it became the heart of his Third World policies. Under his aegis Moscow began in the late 1950s and early 1960s to give aid and support to radical nationalist Third World leaders who were not communist but who had adopted anti-Western foreign policies and had given free rein to local communist parties. He professed to see no relationship between this policy and his efforts to reach an accommodation with the West on such big issues as disarmament.

Gorbachev's seemingly less assertive policy so far on the Third World reflects the diminishing opportunities for Soviet expansion, the need to bolster clients now faced with counter-insurgencies, and perhaps a closer scrutiny of resource allocations for this purpose than in the past. The adventurism of Khrushchev's day does not seem likely to recur under a more sober and cautious leadership today. The ever-expanding trend may continue, but the momentum is likely to be slower and the policies more selective.

In another respect, however, Gorbachev pursues a favorite Khrushchev public relations tactic. Khrushchev blamed Third World conflicts on imperialist exploitation of colonial and dependent countries and declared that the "plunder" had to be poured back into assisting the underdeveloped world. The theme of "disarmament for development" became an important part of his bid for Third World support. He proposed that the savings made by reducing armed forces and military budgets be earmarked for release to an international fund to assist Third World countries.

Gorbachev uses exactly the same language. At the 27th Congress he charged that the "imperialist system is living off the plunder of the developing countries, of their totally merciless exploitation." He then said that capitalism would have

to choose "between the policy of force and shameless plunder" and the opportunity for cooperation. He seized on the Third World debt issue in the same way: both to appeal for support for Soviet disarmament policies and to blacken the West's image in the Third World. And he repeatedly has called for the money saved from arms cuts to go to Third World development.

International Communism: Declining Interest

In Khrushchev's time it was relevant to speak of the non-ruling communist parties around the world as a "movement." Significant changes since then, and the developments within and among the parties on questions of how communists were to come to and retain power, have made many earlier views obsolete. The contrast between Gorbachev's approach and that of Khrushchev thus becomes all the more striking with the passage of time.

During Khrushchev's tenure the movement was rocked by dissensions which the Soviets viewed as a threat to communist rule in Eastern Europe and to their influence and prospects in the world at large. Postwar quarrels, dating back to the 1948 break with Yugoslavia, were deeply exacerbated not only by Khrushchev's destalinization policy but also by the invasion of Hungary, the troubles in Poland, and later the break with China. On the defensive, Khrushchev became militant about the role of international communism. He wanted to quash any criticism of the Soviet Union or weakening of individual party ties with the CPSU. In public he portrayed the movement as solidly united except for the renegades in Belgrade whom he tried to isolate with a succession of international communist meetings and declarations of solidarity. After he mended fences with Yugoslavia, the quarrel with China caused new divisions among the parties, wrecking all his efforts.

By contrast, Gorbachev has paid little attention to international communism, perhaps reflecting the fact that the movement itself has undergone radical change. The Soviet Union found a modus vivendi with the Yugoslavs long ago; it established, and has reestablished, its hegemony over Eastern Europe; Eurocommunism--never a cohesive idea--has lost vitality; and the rapprochement with China has largely ceased to make an ideological issue of Sino-Soviet relations. In many Third World scenarios, the whole philosophy of the Marxist-Leninist path of revolutionary class struggle with the communist party as the vanguard has become outmoded, even in Soviet eyes.

Reflecting this changed situation, Gorbachev has had few formal meetings with foreign communist party leaders even though all the major parties (excluding China) were represented at the 27th Congress and could have been summoned for such

meetings. The meetings he has held--for example, with Portugal's Cunhal and France's Marchais--appear to have been devoted more to getting local communist backing for Soviet positions on arms issues than to promoting the concerns of the local party or the world communist movement. The Soviets today see in united fronts, peace movements, and broad mass organizations greater promise for advancement of their policies and ideology than in reliance mainly on national communist parties.

The Fraternal Road to Socialism

The countries in which communist parties have established their rule with Soviet help are another matter. The distinction between the ruling and the nonruling parties--and the concept of the "fraternal socialist community"--has become clearer in the 30-year interval since Khrushchev's accession to power. Khrushchev professed to see what in his day was called the "socialist camp" as a voluntary union of equal and sovereign states in which no one state had special rights. According to his declared policy, each country was free to decide independently the question of the forms of its cooperation with other socialist countries. He was careful to point out, though, that socialism could not realize its full potentiality unless the socialist countries were united. Only thus could their national interests and security be guaranteed.

After the invasion of Hungary his line was not so transparent. The "Brezhnev doctrine" enunciated following the Soviet invasion of Czechoslovakia in 1968--in which all socialist countries were said to be obligated to "preserve the gains of socialism" in any other socialist country under threat--was initiated not by Brezhnev but by Khrushchev. To a Hungarian audience in 1958 Khrushchev defended the Soviet invasion by warning that "if there is a new provocation against any socialist country, the provocateurs will have to deal with all countries of the socialist camp." He bluntly stated that the Soviet Union "is always ready to come to the assistance of its friends, to repulse fittingly the enemies of socialism if they should try to disturb the peaceful labors of the people of the socialist countries." Later that year, warning against West German militarism, he repeated that language to an East German audience, pledging that if necessary all the forces of the socialist countries would be used to defend the German Democratic Republic.

Gorbachev has not been called upon to defend the socialist community, but his remarks at East European party congresses this year, and his report to the 27th CPSU Congress, indicate continuity with the basic political desiderata laid down by

Khrushchev and later confirmed by Brezhnev. However, following the guidelines of the 1985 party program, he has been more judicious than his predecessors in enunciating Soviet policy. The program merely emphasized the "common historic destiny" of the socialist countries, spoke of the Warsaw Pact as an instrument of collective defense, and called for the "precise fulfillment of adopted pledges." In that vein, Gorbachev, visiting Hungary this spring, did not go further than to cite Lenin in affirming that "when necessary" the proletariat of both countries would "boldly defend our gains."

But at the Polish Party Congress he was more explicit. He described the Polish crisis of the early 1980s not as a protest by the workers against socialism but as a disagreement with those distortions of socialism that harmed the working class; he charged that the enemies of "socialist Poland" within and outside the country sought to make use of these disagreements in an effort to liquidate socialist gains in Poland. To drive home the point, he said that the lessons of Poland were that socialism had deep roots there, the working people could not conceive of themselves as outside the socialist community, and "this means that the socialist gains are irreversible."

China presents a special case. Gorbachev in effect inherited the results of Khrushchev's policies which brought the break with China. The rapprochement started under Brezhnev is only now beginning to take shape in a political sense. Gorbachev, unlike Khrushchev, has no illusions about bringing China into the fold of fraternal socialist states which look to the Soviet Union for their security. Even in the absence of party ties, such areas as trade and cultural and other exchanges function smoothly enough. For now, and probably the foreseeable future, the Soviets seem content to accord China a special place in the larger "world socialist community," not the more exclusive "fraternal" socialist community.

Socialism by Example

A prevalent theme of Gorbachev's is that world socialism will be advanced not by exporting revolution but by force of example, a line that frequently appeared in Khrushchev's discourse. Khrushchev held that the future belonged to the socialist system but that achievement would not come about as a result of interference by the socialist countries in the domestic affairs of capitalist countries. "We shall not foist our socialist system on other countries by force of arms.... But we are attacking capitalism from...economic positions, from the positions of advantage of our system." The ideas of communism, he said, would reach the minds of people not only

through a study of Marxism-Leninism but also by way of the "inspiring" Soviet example. Khrushchev used this argument to exhort the Soviet population to produce more; it was only by raising labor productivity that the superiority of the socialist system could be demonstrated. He also tried in this way to allay fears of the nonsocialist world about the Soviet Union and communism. "We want people to choose for themselves what suits them best," he said.

With boundless enthusiasm, Khrushchev predicted the USSR would catch up with and surpass the US--the benefits of capitalist achievements without capitalism. In 1958, for example, he said that the time was not far distant when the Soviet Union would catch up with the US in per capita production of key industrial items and would achieve the highest living standard and the world's shortest working day. After the launching of Sputnik, he began to boast that the Soviet Union had actually surpassed the US in the field of rocketry.

Gorbachev follows this same formula in denying that socialism needs to export revolution in order to take root in other countries. He told the 27th Congress that the path the developing countries choose in the future will depend largely on the successes of socialism, on the "credibility of its responses to the challenges of the times." Although he continues Khrushchev's line, his language is more sober. In his interview with Time magazine in September 1985 he denied that the Soviet Union thirsted for US technology and he claimed that it not only had won technological independence but also had long been enjoying the status of a great scientific and technological power. He denied that his acceleration program was dependent on "technological transfusions" from the US and pointed instead to the "brain drain" to the US from Western Europe and elsewhere.

Along with the theme that socialism is the superior system, Gorbachev derides the notion that the West can force the Soviet system into bankruptcy through anti-Soviet policies and the arms race. Khrushchev, too, took note of this point, claiming that some in the West were clinging to the cold war in order to make the Soviet Union spend more on armaments and thus weaken its economic potential. His answer was to dismiss that possibility and to repeat his prediction that the USSR would outstrip the capitalist states. Gorbachev avoids Khrushchev's hyperbole but gives a similar emphatic response. At Vladivostok recently he stated that acceleration of the arms race served the imperialists' superprofits and other "immoral goals," the essence of which was to wear out the Soviet Union economically. "This business was doomed in the past and remains hopeless today."

The Homefront: Going to the People

A detailed comparison of Gorbachev's ideas for domestic reform with those of Khrushchev is beyond the scope of this paper. But it is possible here to compare the similarities in style and approach and to note some of the major areas of concern. Both Soviet leaders began from the same premise: a sweeping reform of every aspect of domestic life. Gorbachev describes his version as revolutionary: "Our transformations...are a real revolution in the entire system of social relations, in the hearts and minds of the people, in the psychology and understanding of the modern period."

In his quest for change, Khrushchev was not guided by any far-reaching plan; he proceeded in a seemingly erratic manner. (One of the charges against him in 1964 was "immature conclusions and hasty decisions and actions devoid of reality.") His search for new answers to persistent problems seemed endless. He concentrated on agriculture, in 1954 pushing through his Virgin Lands program for raising grain production, in 1955 discovering corn as the panacea, in 1957 trying to boost milk and meat production so that it would soon overtake that of the US, in 1958 abolishing the institutionally sacrosanct machine-tractor stations. In his search for incentives and productivity, he experimented with changes in private garden plots. His penchant for reorganizing economic management took the various forms of decentralizing, centralizing, and finally bifurcating party and government control agencies. He challenged the military with programs to reduce spending through reductions in conventional forces and changes in force structure and strategy.

Gorbachev, too, seems to be proceeding without a basic political blueprint, although of course he has such guidelines as the party program and the five-year plan. He may not be as impetuous in his search for solutions as Khrushchev, but some of his initiatives seem to be based on a trial-and-error approach. He said as much in a recent speech:

"Nobody...in the ministries, in Gosplan, in the government and in the Politburo has any ready-made solutions. We must learn as we go along how to restructure; we must learn, as we solve new tasks, and we must not be afraid of advancing boldly, taking on responsibilities, and taking risks."

Part of the challenge is to improve the realm of "socialist democracy." Going to the people is not a new Soviet leadership method. Even Stalin used it on occasion, as did other leaders to some extent. Khrushchev made an art of dispensing homilies

on "socialist democracy," which he portrayed as a system wherein people are the complete masters of their country. Gorbachev is developing a similar style. "There is nothing stronger than the force of public opinion," he told an audience in Khabarovsk recently. "To involve the people in managing the state is what Lenin dreamed of. ...Even our class opponents do not know what to say now."

One aspect of Gorbachev's style is his much-talked-of openness. Criticism, self-criticism, and publicity are seen by him as political tools. One of his target groups is the intellectuals. For the first time since Khrushchev's attempt to do so, a Soviet leader has made direct overtures to them. Gorbachev's recent dialogue with cinematographers and leading writers reflects this new liberalism toward intellectuals. The ferment at the recent Writers' Congress--where speakers called for less censorship, rehabilitation of controversial writers of the past, and other freedoms--follows other liberalizing trends (the setting up of a commission to reexamine rejected films, new theatrical productions, changes in the educational system).

All this, particularly the approach to writers, is reminiscent of Khrushchev's early efforts. (He seemed especially sensitive about the troublemaking potential of intellectuals after the Hungarian revolt, acknowledging in a speech that "one must be more attentive and understanding with the intelligentsia during a radical change.") His various attempts at liberalization backfired, however, and he eventually had to retrench.

Gorbachev's Prospects in the Light of History

The decade ahead may be just as challenging for Gorbachev, assuming he retains power, as the decade of Khrushchev's rule was for him. On the homefront, Gorbachev's stated intentions to shake up the bureaucracy and reform the economy could well encounter some of the same types of difficulties. Sooner or later he will face similar decisions on the same perennially divisive issues: problems of the distribution of power between the center and the periphery, industrial versus agricultural investment, heavy versus light industry, and the relative weight to be given incentives and coercive measures to ensure discipline and bolster production. The Soviet Union's poor economic performance, now as earlier, complicates the equation of defense spending versus other economic claimants for resources.

To pursue his programs successfully, Gorbachev needs to gain the kind of control needed for policy flexibility. His use of the tactic of discrediting the previous regime as a way of attacking personnel and power groupings is bound sooner or later, as it did with Khrushchev, to arouse the guardians of

the old order. If his "cultural thaw" gets out of hand, he is likely to have to clamp down on intellectuals just as Khrushchev did. Any such eventualities could put a brake on some of his other reform schemes.

It may be argued that the Soviet Union would want to consolidate its international position within its present limits and to concentrate on reform at home. The primacy Gorbachev has given to domestic economic issues and to the argument that Soviet economic vitality underpins the USSR's international standing points in this direction, as does his emphasis on interdependence and de-emphasis of class struggle. But however diminished the ideological fervor behind the foreign policy of the USSR, it still impels the advancement of Soviet power abroad as the counterpart of strengthening the country at home.

Even though Gorbachev will wish to avoid the kind of policy that led Khrushchev into a confrontation with the US, he is no less aware of the political utility of military power, both to maintain the USSR's positions abroad and to legitimize the regime at home. Gorbachev puts a different emphasis on peaceful coexistence, but Soviet efforts to achieve political change still take the traditional forms of support to communist parties, front and subversive groups, and the like.

Although the situation is different today, the greatest potential challenge for Gorbachev could still be in Eastern Europe. Soviet-backed regimes there are likely to come under increasing domestic pressure as their peoples seek economic improvements, a rise in living standards, and liberalization in general. This pressure will lead the regimes to seek more latitude for economic reform. Gorbachev may wish to encourage more dynamic policies to improve economic performance, but he will continue to place a premium on tight political controls. The contradictions inherent in this situation contain the makings of future crises which could undermine his other programs.

Assuming, however, that Gorbachev did not encounter any of these obstacles and was successful in following through on the major tenets of his programs, a new era of detente modeled along the lines of the early 1970s could be in the making. Reduced East-West tensions based on arms control understandings, progress toward solution of regional conflicts, and greater cooperation on global issues might be the contours of such a denouement. Going beyond Khrushchev, Gorbachev might see as a realistic goal pursuit of a "network of agreements" that would make detente irreversible--the initial declared goal of Khrushchev's successors. But here, too, history cannot be ignored. For as in the late 1970s, this more benign scenario is likely to be disrupted by crises in the Third World in which

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the US and the USSR become deliberate or inadvertent antagonists. Rules of the game for pursuing rivalries in the Third World without disrupting the core relationship have yet to be established.

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