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MEMORANDUM

NATIONAL SECURITY COUNCIL

May 27, 1983

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INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY *NAB*

SUBJECT: CIA Report on Soviet Use of Economic Relations

I draw your attention to the attached Executive Summary of a CIA report on the above subject. In this area, as in others, the unilateral disarmers are at work.

Attachment
As stated

cc: Roger Robinson

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NLRR *M11-419*

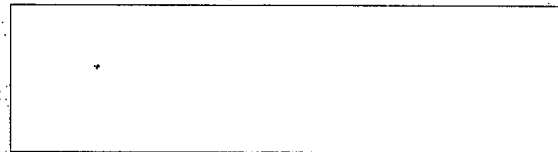
BY *[Signature]* DATE *4/26/11*

MORI pgs 3-16 RIPPUB C00303887

MEMORANDUM FOR: The Honorable William P. Clark
Assistant to the President for
National Security Affairs
The White House

The attached typescript describing Soviet use of economic relations for political gain was prepared in anticipation of the Williamsburg Summit. Because this topic is related to the broader issue of Soviet intentions in the international arena we believe it might be of interest to you.

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Director
Soviet Analysis

Attachment:
SOVM83-10084

Date 16 May 1983

FORM 101 USE PREVIOUS EDITIONS
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Washington D.C. 20505

DIRECTORATE OF INTELLIGENCE

9 May 1983

Soviet Use of Economic Relations for Political Purposes

Key Judgments

The Soviets never lose sight of possible political gains that may be realized through economic relations.

In trade with Western countries they seek direct political concessions from governments when they think they have leverage and judge that the effort will not backfire. On a few known occasions such pressure has been successful. However, they also seek political profit indirectly through trade by:

- Strengthening the Soviet domestic economic foundation for meeting both military production and consumption needs, thereby buttressing the USSR's international power position.
- Reinforcing those international economic and military trends and interdependencies which, in their own right, have favorable long-term political consequences for the USSR.
- Encouraging the emergence in foreign countries of lobbies pushing governments for political as well as economic actions consonant with Soviet interests.

Because the USSR presently does not enjoy great market power vis-a-vis the West, it generally concentrates on these indirect paths to advance Soviet political interests and avoids jeopardizing its political-strategic interests by provocative attempts to exert leverage directly for political purposes.

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BY *Amj* 4/26/11

This memorandum was prepared by [redacted] Office of Soviet Analysis. Comments and queries are welcome and may be addressed to Chief, Soviet Economy [redacted]

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WARNING NOTICE
INTELLIGENCE SOURCES

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DERIVED FROM [redacted]

The Soviets in the past have applied heavy economic pressures for political ends against Communist regimes whose leaders have not been subject to direct Soviet control--but only with mixed success. They have also bluntly used economic leverage against Communist regimes within their sphere of direct control even though they have other means of influence and must take into account the possible destabilizing effects of such actions.

The main Soviet instrument of pressure against Third World countries has been the military supply relationship, and Moscow has frequently tried to use it against recipients of its military assistance in order to gain political or military-security objectives.

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Table 1

Importance of Soviet-Western Trade to
Selected Western Countries, 1980

Soviet Trading Partner	Exports to USSR as a Share of Total Exports	Imports From USSR as a Share of Total Imports	Share of Trading Partner's GNP Exports to the USSR
Argentina *	15.0	0.2	0.8
Australia	5.1	0.1	0.8
Austria	2.7	4.2	0.6
Brazil *	2.1	0.2	0.2
Canada	2.1	0.1	0.5
France	2.2	2.7	0.4
Italy	1.6	3.0	0.4
Japan	2.1	1.3	0.3
Netherlands	0.7	1.6	0.3
United Kingdom	0.9	1.5	0.2
United States	0.7	0.2	0.1
West Germany	2.3	2.2	0.5

* Estimated.

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Discussion

Introduction

The Soviets take a broad view of possible political (including military-security) gains from foreign economic relations. From a Leninist standpoint, "politics" and "economics" are two sides of the same coin. Economic relations necessarily have political consequences, just as political actions have economic consequences. Not to perceive that trade has political implications is thus, from the Soviet standpoint, naive. How to exploit trade relationships for political payoffs, and how publicly to talk about economic/political linkages, is for Moscow simply a matter of tactical expediency dictated by current strategic objectives and the local situation. []

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Policy Toward Developed Countries

Soviet exercise of economic leverage for political purposes in the West has been cautious. Overall, the Soviet Union does not enjoy great market power vis-a-vis the West, although certain Western industries are disproportionately dependent upon sales to it. As a share of total trade turnover, Western trade with the USSR is quite low (see Table 1). The USSR is currently more dependent on the West economically than the West is on it. []

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Moscow assigns a high priority to imports from the West of advanced technology, machinery, and foodstuffs--and to credits that facilitate these imports and make possible such critical hard currency-earning projects as the gas export pipeline. The Soviets also have key political/security equities at stake in relations with the West that could be endangered by too open and belligerent an attempt to exploit for political purposes those Western interests in trade that do exist. Thus, Moscow's strategy has generally been to avoid provocative attempts to exercise political leverage, promote Soviet imports and technology acquisition, and--to the extent possible--work to weaken West European and Japanese economic ties with the United States and to develop stronger West European energy dependence on the USSR. []

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Where the Soviets have tried to apply economic leverage for political purposes, they have often sought to do so indirectly by working through industrial, business, and banking groups. Thus, for example, they:

-- Sharply increased trade with and aid to Iceland in the mid-1950s when the issue of a US base was being hotly debated. []

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-- Have for years dangled the lure of trade before Japanese businessmen in order to weaken US-Japanese ties, sidetrack Japanese demands for the return of the disputed

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Northern Territories, and undercut strategic cooperation between Tokyo and Washington. [redacted]

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[redacted]

-- Threatened an Italian business delegation in late 1982 that Italian commercial interests would suffer if the Italian government did not take politically-significant economic "normalization" steps. [redacted] 25X1

It is difficult to assess how successful these efforts have been, since the influence process is diffuse and hard to trace.

On other occasions the Soviets have resorted to more direct use of leverage. For example:

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-- In 1958 Moscow cut purchases from Finland in a successful bid to force the exclusion of Conservatives from the Finnish Cabinet. [redacted]

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[redacted]

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-- In [redacted] 1982 the Soviets strongly hinted at harsh trade reprisals against Finland if the Finns did not agree to improve the trade balance [redacted]

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[redacted]

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-- In March 1983 Moscow offered large-scale economic assistance to the Turkish government [redacted]

[redacted]

Policy Toward Communist Countries

Historically, the Soviet leadership has exerted heavy economic pressure upon some communist regimes in order to achieve political gains. In most of the known cases in which this has occurred, the countries involved were--for a variety of reasons--less susceptible to direct Soviet military/police control. Soviet success has been mixed. For example:

- In an attempt to topple Tito and draw Yugoslavia back into the Soviet camp, Moscow imposed a total economic embargo against Yugoslavia between 1949 and 1954. [] 25:
- In responding to the Chinese challenge to Soviet ideological and political leadership of the international communist movement, Moscow abruptly canceled Soviet technical assistance in August 1960 and withdrew some 2,000 experts, together with their blueprints-- threatening the very core of China's industrialization program. []
- In dealing with what they regarded as Fidel Castro's harmful revolutionary adventurism abroad and gross mismanagement at home, the Soviets began to apply a sophisticated fuel (but not military supply) squeeze against Cuba in 1967. By early summer 1968 Castro was ready to mend his fences with Moscow and bring his foreign policy into line with that of the USSR. [] 25:

More recently, Moscow has used a lighter touch in dealing with communist states outside its physical control. Thus, for example:

- Moscow has potentially strong leverage over Hanoi because it is the source of all military aid received by Vietnam, and also provides about 95 percent of Vietnam's foreign economic aid (see Table 2). Vietnamese leaders have felt keenly their dependence on Soviet aid since the cutoff of Chinese assistance in 1978 ended Hanoi's strategy of playing Moscow off against Beijing. Nevertheless, the Soviets have apparently not extracted great political mileage from this dependency. They have gained military base visitation privileges (less than they probably wanted) and Vietnamese support of general Soviet foreign policy, but seem to have been refused a greater presence in Vietnamese planning organs and line ministries. [] 25:
- The USSR's rejection of mounting Romanian requests for preferential economic treatment may be intended to force the Romanians back into line. The Romanians appear to believe this is the case, and have tried the last few years to win Soviet economic concessions by restraining

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Table 2

Million US \$

USSR: Economic and Military Assistance to Indochina

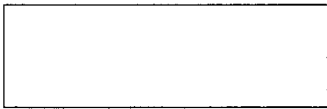
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	386	637	428	789	313	352	344	449	1,644	1,106
Economic aid ^a	196	157	218	271	229	305	291	335	572	417
Trade surplus ^b	131	87	143	196	154	225	196	225	457	297
Economic grants ^c	50	50	50	50	50	50	50	50	50	50
Technical services ^d	15	20	25	25	25	30	45	60	65	70
Military equipment deliveries	190	480	210	518	84	47	53	114	1,072	689
Vietnam	190	480	210	120	73	32	12	91	1,058	606
Laos and Kampuchea	0	0	0	398	11	15	41	23	14	83

^a Including economic aid to Vietnam only. No trade subsidies have been calculated.

^b From the Soviet foreign trade handbook; used as a rough estimate of economic aid, excluding grants and services.

^c Based on proportion of grants in reported commitments.

^d Minimum estimated value of Soviet technicians in Vietnam and training of Vietnamese in the USSR.



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their behavior. They have refused, however, to give way on issues key to their hard-won--if limited--political independence. [redacted]

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- Since the early 1970s, the USSR's economic ties to Yugoslavia have steadily increased, despite political differences on major issues such as the Soviet invasion of Afghanistan. Yet the Soviets have apparently refrained from serious attempts to apply economic leverage against Belgrade. They probably seek to increase long-term Yugoslav dependence on trade with the USSR and to stave off increased Western influence that might arise from Yugoslavia's current economic plight.

[redacted]

The record of Moscow's readiness to apply economic pressure for political purposes against communist countries whose leaders are subject to direct Soviet control is more ambiguous. Two key factors, however, clearly affect Soviet calculations about leverage. On the one hand, there is the massive economic reliance of these regimes on the USSR--and thus the potential for leverage. The cost of Moscow's direct and indirect assistance to all communist countries increased dramatically in the 1980s (see Tables 3 and 4), reaching an astounding \$23 billion in 1980. The economic burden can now be considered sizable--equivalent to more than 1.5 percent of Soviet GNP in 1980. Moreover, a substantial portion of the costs represents foregone earnings of hard currency that the USSR increasingly needs to sustain its modernization and consumer programs. Support for Eastern Europe is the heaviest burden and is largely responsible for the phenomenal growth in costs. It accounted for 20 percent of total costs in 1971 but nearly 80 percent in 1980. Eastern Europe's heavy dependence on the USSR for subsidized fuel deliveries accounts for most of the increase. [redacted]

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On the other hand, the East European governments are potentially unstable since these regimes are perceived by their citizens as imposed by the Russians and not authentically national. What popular legitimacy they do enjoy depends largely upon their continued ability to meet at least minimal consumer expectations. To a degree, then, Moscow is subject to reverse economic leverage by its clients, who can argue that failure to meet local economic demands may have untoward political consequences. [redacted]

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The Polish case demonstrates nevertheless that when pressed, the Soviets may be prepared vigorously to employ economic pressure for political purposes in Eastern Europe. In the fall of 1981 Moscow threatened to cut off supplies of oil and raw materials unless what the Soviet Union saw as a Solidarity-led anti-Soviet campaign was halted. [redacted]

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Table 3

Million US \$

USSR: Economic Costs of Supporting Communist Countries

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	1,737	976	1,705	7,349	6,593	7,806	8,955	8,490	13,562	23,043
By area										
Eastern Europe	358	-746	174	5,384	4,678	5,124	5,723	3,874	7,490	18,050
Cuba	607	701	652	754	1,122	1,725	2,051	3,252	3,335	3,228
Vietnam*	386	637	428	789	313	352	344	449	1,644	1,106
North Korea	254	190	156	101	92	64	84	22	133	NA
Mongolia	105	165	223	244	348	468	613	714	672	493
Afghanistan ^b	27	29	72	77	40	73	140	179	288	166
By type of cost										
Trade subsidies	443	-61	918	5,711	5,128	5,780	6,314	6,367	9,268	18,906
Export surpluses ^c	-29	-685	-594	101	472	714	1,190	146	899	1,569
Economic aid	897	1,027	925	832	746	955	1,140	1,429	1,763	1,602
Military aid	426	695	456	705	247	357	311	548	1,632	966

* Includes military equipment deliveries to Laos and Kampuchea.

^b Afghanistan is included because it is clearly a client state at the moment.

^c Eastern Europe only.

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Table 4

Million US \$

USSR: Economic Assistance to Eastern Europe

	1971	1972	1973	1974	1975	1976	1977	1978	1979*	1980*
Total	358	-746	174	5,384	4,678	5,124	5,723	3,874	7,490	18,050
Implicit subsidies	387	-61	768	5,283	4,206	4,410	4,533	3,728	6,591	16,481
Trade surpluses	-29	-685	-594	101	472	714	1,190	146	899	1,569

* Estimated from preliminary data.

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Whether the Kremlin more routinely applies economic armtwisting for political/security purposes in Eastern Europe is unclear. Because of Moscow's direct political influence over East European regimes and their leaders, the multitude of economic, political, and military contacts constantly underway between East Europeans and the USSR, and anticipation in East European capitals of political winds blowing from the Kremlin, it is difficult to distinguish economic from other types of pressure.

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Policy Toward the Less-Developed Countries

The Soviets have not enjoyed much economic leverage with a majority of LDCs:

- Economic dealings with LDCs account for a relatively small share of Soviet foreign trade (about 14 percent in 1981).
- In less than a dozen cases did trade with the USSR amount to over 5 percent of an LDCs total foreign trade in 1979-81.

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After first trying to compete with the West in providing development aid during the 1960s, Moscow has increasingly turned to military assistance for its entree to the Third World:

- By 1981 Soviet military deliveries far outdistanced other economic aid extended to LDCs (see Table 5).
- The largest share of military assistance (95 percent since 1954) has gone to nations on the Soviet border and to North African and Middle Eastern states such as Afghanistan, Algeria, Egypt, Iraq, Libya, Syria and South Yemen, although Ethiopia and Peru have also been major recipients.
- Many of these countries have equipped their forces largely with Soviet arms and remain dependent upon Moscow for parts, supplies and servicing. 25X1

The Kremlin has relied primarily on the military program in establishing influence because it:

- Can create dependence more quickly than economic aid.
- Provides direct access to politically powerful elites.
- Is more readily implemented than economic agreements.
- Is financially much more advantageous to the USSR, generating an estimated \$5 billion in hard currency annually.

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Table 5 *Million US \$*
USSR: Military Agreements With LDCs

1977	9,335
1978	2,520
1979	8,360
1980	13,915
1981	6,060

Million US \$

**USSR and Eastern Europe:
 Military Deliveries to LDCs**

	USSR	Eastern Europe
1977	4,740	355
1978	5,705	550
1979	7,615	635
1980	6,290	525
1981	6,445	775

Million US \$

USSR: Economic Aid Extended to LDCs

Total	22,355
1954-76	13,060
1977	430
1978	3,000
1979	3,345
1980	2,070
1981	450

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Nevertheless, Moscow still considers economic aid a useful tool for expanding Soviet influence in the Third World. It has been pressing for broad, long-term cooperation agreements with all of its major LDC clients in order to synchronize their planning cycles with Moscow's, encourage formation of a state economic bureaucracy less attuned than private entrepreneurs to relations with the West, and assure a stable flow of raw materials to the USSR. [redacted]

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Over the past decade, as their overseas naval operations have expanded, the Soviets have consistently probed for new or improved access to port facilities and airfields for naval reconnaissance purposes:

- As inducements, they have offered naval equipment, training, services, and--in some instances--economic development assistance.
- The main targets have been Indian Ocean and Mediterranean littoral states and West African countries.
- But they have not pushed so hard for access as to endanger broader political objectives and have generally backed off if their requests for access appeared to threaten their relationship with the host government.

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[redacted]

In pressing for internal changes in LDCs, the Soviets have sought both to influence the short-term balance of power within regimes and to bring about long-term political and economic structural changes designed to weaken pro-Western forces and strengthen those more sympathetic to the Soviet Union. Thus, for example, the Soviets have used their military supply relationship and (to a much lesser extent) the prospect of economic assistance to:

- Push for the inclusion of communists or pro-Soviet elements in the leadership of non-aligned regimes (or for toleration of their activities) or to defend the same groups against active regime repression--as in Egypt in the late 1960s, Iraq in the 1970s, North Yemen in the 1979-80 period, and Syria in recent years. [redacted]
- Pressure regimes of a "socialist orientation" to purge Western-trained and politically-moderate officials from office and to institute changes in the party, armed forces, and government designed to guarantee Soviet access over the long-haul and prevent new "Sadats" from turning regimes toward the West. This type of pressure has been exerted in recent years, for example, against Ethiopia and possibly Angola. [redacted]

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- Encourage other regimes to nationalize private property and introduce other changes in property ownership intended to weaken pro-Western classes--recently, for example, in Syria. [redacted]

In the foreign policy arena, the Soviets have pursued several types of objectives by offering, or implicitly or explicitly threatening to withhold, military assistance. Thus, they have:

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- Sought to prevent development of closer military (and thus political) ties between individual LDCs and the West by moving aggressively to preempt sales by other suppliers. Cases here include India, Syria, Ethiopia, and South Yemen. [redacted]

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- Extracted diplomatic support in the UN, Non-Aligned Movement, and other international forums for Soviet-backed positions--for example, from Mali and (probably) Angola, Ethiopia, and Mozambique on the issue of Afghanistan. [redacted]

- Tried to affect the outcome of regional issues by influencing, for example, Syria on its military intervention in Lebanon in 1976, Guinea-Bissau's participation in the West African Non-Aggression and Mutual Defense Agreement, and probably Angola's position on settlement of the Namibian issue. [redacted]. 25X1

As a general rule, most Soviet attempts to apply leverage against LDCs have been restrained by a realistic assessment of the limits of such leverage and a desire not to put at risk assets already in hand:

- In pro-Soviet countries such as Angola or Ethiopia, the USSR has been afraid of destabilizing friendly regimes, weakening these regimes' struggle against foreign enemies, or opening the door to renewed Western influence.
- In pro-Western countries such as the moderate Arab states, Soviet policy has been influenced by lack of market power, a reluctance to jeopardize supplies of raw materials, fragility of relationships with leaders, and pursuit of a long-term strategy keyed to separating "politics" and "economics."
- In neutralist countries such as India, Moscow has sometimes held back for lack of market power, fear of endangering geostrategic interests, and a wish not to be tarred with the same brush as the "imperialists."

In all three sets of countries Moscow has been concerned not to up the ante of Soviet economic development assistance in the process of exerting leverage, and regularly has advised LDC leaders not to jeopardize possible development aid from the West by precipitate radicalism in domestic economic policy. Cases here include Mozambique, Ethiopia, and Nicaragua.

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