

26 October 1981

MEMORANDUM FOR: Director of Central Intelligence

FROM : Robert M. Gates
NIO, USSR

SUBJECT : The State of the Soviet Economy and the Role of East-West Trade

Attached is a paper by the Office of Soviet Analysis that addresses the seriousness of Soviet economic problems and assesses the impact of East-West trade in reducing economic pressure on Brezhnev and his colleagues. It concludes:

- The Soviets indeed face serious problems in almost every sector of the economy.
- The Soviet leaders recognize that they have serious economic problems, but they are less pessimistic than we. They believe present policies will be successful eventually and also that some of their major difficulties are transitory.
- Even so, Soviet need for Western goods will grow in the 1980s. They will need, in particular, (1) Western plant and equipment which make a disproportionately large contribution to productivity--especially in sectors crucial to technological progress (e.g. chemicals and machine building); (2) Western oil and gas equipment to locate and explore new resources; (3) specialty steels and large diameter steel pipe (1980 steel imports represented 10 percent of Soviet production of rolled steel); and (4) food, especially grain and meat.
- Denial of all Western equipment and technology would have a major disruptive effect on the Soviet economy. Denial only of US-origin equipment and technology generally would be disruptive only in the short term because of other Western substitutes.
- Western denial of certain categories of equipment and technology could complicate Soviet planning and hamper development of some key sectors of the economy.
- In sum, the Soviet leaders do not see themselves under such economic pressure at home now or in the near term to cut defense spending or to make needed structural changes in the economic

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system. They do not see any threat of a broad Western embargo and, even if they did, politically would regard tacking to such a threat as appeasement and thus dangerous both internationally and in domestic politics. Moreover, in our view, they do not see an embargo leading to domestic unrest in a population that has endured much worse and would do so again.

I generally share this assessment, largely because I share the Soviet view that the prospect of a broad Western embargo is quite unlikely. Back in the real world, in the area of trade restrictions affecting specific sectors of the Soviet economy, without the help of our "allies" we only can inconvenience the Russians, delay their plans in some areas, but little more. Alone, we have relatively little leverage. However, with allied help, Western restrictions even in specific economic sectors clearly would make life much more difficult for the Soviets and substantially complicate both planning and performance. Even here, however, we should recognize that such economic restrictions are unlikely to produce any significant change in Soviet military programs or activities in the Third world. I continue to believe that only U. S. actions in these specific areas raising the political and military risk of such activities can bring any change.



Robert M. Gates

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