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SALT Talking Paper for Secretary Kissinger

If SALT negotiations fail, the USSR is likely to lose the major economic dividends associated with detente:

- The Politburo may have to spend a great deal more on strategic programs with no assurance that it will be as well off militarily as it is today.
- At the same time, a resurgence of military competition would block some of the channels of technology transfer that the USSR has managed to open in the past decade.
- Without the confidence fostered by detente, US firms would not participate in the development of Soviet natural resources.

In its drive to match American strategic power, Soviet leaders have been able to keep the growth of military outlays well within the bounds of a growing economy. Between 1964 and 1974, the share of gross national product devoted to military programs declined appreciably. As a consequence, the sizeable investment in strategic forces was digested without a discernible impact on the civilian sector.

The evolution of military technology and the concomitant escalation in costs, however, are ever present threats to domestic programs. For the USSR the advantage of SALT arrangements does not lie mainly in curbing deployments of weapons already developed. Instead, Soviet leaders must face the possibility that the United States will steal a march in the technological race. Indeed, SALT I tended to focus national competition in the R&D arena, where the US has a decided advantage. In the absence of a SALT agreement, any US administration would be under great pressure to develop and deploy new weapons systems, no matter how expensive they might be. The USSR could therefore be forced to increase military spending. The United States would easily have the advantage in a stepped-up competition in military spending. The US economy has tremendous unused productive capacity whereas the USSR runs a "taut economy". No doubt the impact on the United States would be unpleasant -- e.g., additional inflation and occasional bottlenecks -- yet the impact on the USSR would be far more serious -- an almost immediate setback to Soviet economic development.

Failure of SALT negotiations could also endanger the transfer of technology that has flourished under detente. The leadership knows that the Soviet economy is second rate in many respects. Believing that the shortcut to technological progress lies in importing Western machinery and

technology, Moscow has bought more than \$5 billion of Western machinery since 1970. At the same time, the USSR has developed a large network of agreements with Western countries for technical exchanges in areas of great interest to the Soviets. The most impressive growth in Soviet machinery trade and technical agreements in the last few years has been with the United States. Detente has played a decisive role in these developments. The rise in purchases of Western machinery has been sustained by the willingness of Western governments to back long-term low interest credits to the USSR and by a relaxation of export controls on some advanced technologies which the USSR does not possess.

The immediate effect of unconstrained arms competition would be to undermine the foundation of technology transfer from the United States to the USSR.

- First of all, the bilateral government-to-government exchanges would become a dead letter while activity under the agreement between Soviet agencies and US firms might come to a standstill.
- Export controls probably would be tightened on the high technology products and licenses that the USSR is seeking from the United States -- especially in the computer and electronics fields.

- US export credits would also be sharply reduced. Without EXIM Bank support, US manufacturers would be less willing to supply the technology not subject to export controls. And in some cases -- truck manufacturing technology, petroleum equipment, and some chemical equipment -- the USSR would be unable to obtain equivalent technology in other countries.

Although Moscow could turn to Western Europe and Japan, they too might be less willing to extend credits and more willing to retain export controls if detente seemed to be fading away. On the other hand, success in SALT II almost certainly would guarantee a growing volume of trade between the USSR and the West. Most of the technology that Moscow wants would be for sale on favorable terms.

The same conditions that would curb the flow of Western technology to the USSR would dampen the prospects for ^{other} economic ties. For example, the prospects for Western participation in the development of Siberian petroleum deposits and other Soviet natural resources depend on a fragile web of confidence. The basis for the cooperative ventures favored by the Soviet leadership is an assurance that repayments to Western firms in the form of petroleum oil, gas, timber, coking coal and the like are not subject to interruption. US firms and banks would be less likely to risk their

capital in long-term ventures of this kind in the chilly political climate likely to follow a failure in arms limitation talks.

In addition, an erosion of detente would probably eliminate the United States as an emergency source of grain to cushion the effects of Soviet harvest failures. Moscow could buy enough grain in other countries for its needs in moderately bad years. In really bad years like 1963 and 1972 only the United States could supply the grain necessary to maintain Soviet livestock herds and sustain the consumer programs identified with the present leadership. Large US sales to the USSR seem out of the question unless good relations are maintained between Washington and Moscow.