

Page Denied

Next 1 Page(s) In Document Denied



Central Intelligence Agency
Office of the Deputy Director for Intelligence

14 December 1982

NOTE TO: MajGen Richard Boverie
National Security Council Staff
Rm. 386 OE0B

FROM : Deputy Director for Intelligence

Diode -
Attached are the papers requested on
Andropov and the Soviet economy. Let
me know if there is anything further we
can do.



Robert M. Gates

STAT

DISTRIBUTION:

- #1 - Boverie, NSC
- 2 - Montgomery, State
- 3 - DCI
- 4 - DDI
- 5 - D/SOVA
- 6 - DDI Registry
- 7 - DDI Chrono



Central Intelligence Agency
Office of the Deputy Director for Intelligence

14 December 1982

NOTE TO: Hugh Montgomery
Director, State/INR
Rm. 6531 New State

FROM : Deputy Director for Intelligence

Hugh —
Attached are copies of the papers on
Andropov and the Soviet economy we have
submitted to Dick Boverie at the NSC
staff.



Robert M. Gates

STAT

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

13 December 1982

ASSESSMENT OF ANDROPOV'S POWER

Andropov's Power

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

25X1

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

This paper was prepared by the Policy Analysis Division, Office of Soviet Analysis. Comments and queries are welcome and may be directed to the Chief, Policy Analysis Division [redacted]

25X1

25X1

SOV M 82-10197CX

[redacted]
Copy No. 6

25X1

25X1

25X1

[redacted]

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

25X1

The Lineup

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

25X1

25X1

25X1

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

25X1

Opportunities and Flexibility

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

25X1

25X1

authoritative stance in the leadership than Stalin, Khrushchev, or Brezhnev did at a comparable point in these successions. His promotion has given a new momentum to leadership decisionmaking.

[Redacted]

25X1
25X1

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

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

25X1

25X1

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

25X1

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

25X1

[Redacted]

25X1

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

[Redacted]

25X1

[Redacted]

25X1

[REDACTED]

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

[REDACTED]

25X1

Constraints

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

[REDACTED]

25X1

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

[REDACTED]

25X1

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

[REDACTED]

25X1

[REDACTED] 25X1

[REDACTED] 25X1

Domestic and Foreign Policy Linkage

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

25X1

25X1

25X1

[redacted] This will be the new Politburo's first formal and comprehensive ordering of internal priorities between economic investment and defense procurement. Without reduction in international tensions, which some in the military such as Chief of the General Staff Ogarkov, contend are exceedingly high, the rate of defense growth will be politically hard to reduce. Failure to reduce defense spending, nonetheless, will make it very difficult to solve Soviet economic problems and will over the long run erode the economic base of the military industrial complex itself. [redacted]

25X1

Advisers

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

25X1

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

25X1

25X1

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

25X1

Prospects

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

25X1

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

25X1

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

25X1

25X1

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

25X1

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

25X1

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

25X1

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

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

25X1

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

25X1

25X1

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

25X1

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

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

Conversely, the US is in a position to offer to Moscow some restoration of the centrality of Soviet-American relations that would enhance Moscow's international position and ameliorate Moscow's economic problems. 25X1

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

[REDACTED] 25X1

[REDACTED] 25X1

- [REDACTED]
- Notwithstanding recent Soviet references to strengthening defense, Moscow would like to prevent a major US arms buildup, which they would be hard-pressed to match right now and sees arms control as the best way to achieve this.
 - Less acrimonious atmospherics and a dialogue with the US on Third World trouble spots would also be attractive to Moscow, although past experience strongly suggests they would not alter their behavior. [REDACTED]

25X1

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

25X1

[REDACTED] 25X1

[REDACTED] 25X1

CONFIDENTIAL
Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

13 December 1982

The State of the Soviet Economy in the 1980s

The Basic Situation

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

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

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

25X1

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

SOV M-82-10201

25X1

CONFIDENTIAL

CONFIDENTIAL

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

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

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

Options for the New Leaders

Changes in Decision-Making Process

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

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

CONFIDENTIAL

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

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

Changes in Policy

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

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

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

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

CONFIDENTIAL

CONFIDENTIAL

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

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

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

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

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

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

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

Opportunities for the US

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

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

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

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

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

~~CONFIDENTIAL~~

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

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

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

CONFIDENTIAL