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Issue Brief

U.S.-U.S.S.R. RELATIONS:
FROM CONTAINMENT OF A SUPERPOWER ADVERSARY
TO SUSTAINMENT OF AN EMERGING ALLY

Jim Shaw
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**U.S.-U.S.S.R. RELATIONS:
FROM CONTAINMENT OF A SUPERPOWER ADVERSARY
TO SUSTAINMENT OF AN EMERGING ALLY**

SUMMARY

In 1985, newly-elected Soviet General Secretary Mikhail Gorbachev launched his economic reform program (perestroika) amid bold promises of renewal and economic revitalization. From the beginning Gorbachev realized that a market-based economy was needed to replace and energize the declining Soviet command economy. This initiative, together with promises for political and human rights reform, signaled the possible conception of an unexpected democratic state. However, while the West continues to celebrate the end of the Cold War, Gorbachev is struggling not only to preserve the essence of the Soviet system--strong central rule--but also to maintain the Union of republics.

Soviet Government attempts at economic reform have been an unqualified disaster and have plunged the economy into further decline. Moreover, this crisis has been complicated further by the military's and KGB's heavy-handed response to various republics' call for sovereignty, which has created a potential for civil war and discouraged economic aid from the West. The prospect for meaningful, near-term Soviet economic reform--an embryonic move toward democracy--and the attendant stability, financial, and security benefits that may be realized by the United States are in serious doubt. The U.S. Government should take the lead in providing the necessary economic and technical assistance to help rescue the Soviet's dwindling Third World economy and to sustain an emerging ally.

ISSUE DEFINITION

If we view Soviet economic reform, especially in the form of a market economy, as beneficial to our national interests and achievable, then we need to move immediately toward that goal before Soviet hard-line government and military conservatives persuade Gorbachev that his only hope for political survival is a return to the norms of a state-controlled economy. Furthermore, any unnecessary delay on our part could be viewed in the Soviet Union as U.S. disinterest, and thereby reinforce right wing calls for a return to a command economy and discourage additional reform movements. Conversely, successful economic reform might cause Soviet ideological preservationists to gain confidence in other reform movements, to include a democratic political process, and avoid the possible dissolution of the Union.

Alternatively, we may judge Soviet economic reform not to be in our national interest because it would help to revive the not long ago proclaimed "Evil Empire." And any interference by the United States could result in the Soviet conservative element removing the reformist Gorbachev from office. Also, the Soviet Union's economic decline could be characterized as a European regional problem.

But most importantly, an economically revitalized and stable Soviet Union could provide numerous U.S. trade and business opportunities, and enhance the U.S.S.R.'s role as a significant contributor to a worldwide collective security arrangement.

BACKGROUND AND ANALYSIS

Heading for Collapse

It would be naive to believe that Gorbachev the reformist has converted to Western values and has shed his Communist ideals. (His overtures toward domestic economic, political, and human rights reform and his Nobel Peace Prize winning decision to promote a calmer international environment, via creative diplomatic solutions and unilateral Soviet concessions in the areas of regional conflict, arms control, and multinational disengagement from the Warsaw Pact Alliance, are to be applauded and will earn him a place in history.) Rather, even before assuming the reins of Soviet leadership, Gorbachev--a career Communist Party boss--recognized the weaknesses of the Soviet Government and realized that the system was in a crisis. A decade ago the Soviet Union was an inefficient but viable command economy, which contributed significantly to the country's status as a superpower. Now this system is collapsing because of the drain from weapons modernization, Third World adventurism and unrewarding investments, and the decline in power of the central bureaucracies. Therefore, upon being elected Chief of State in March 1985, Gorbachev sought to remedy the Soviet Union's problems by refocusing the nation's attention from imperialist adventures to domestic reform. His goal is to preserve the essence of the Soviet system--strong central rule--and maintain the Union, while creating a semblance of freedom for individuals and the Soviet republics.

The first five years of perestroika have undermined the institutions and processes of the Soviet command economy without replacing them with efficiently functioning markets. Initial reforms featured greater authority for entrepreneurs over prices, wages, sources of supply, and customers. However, in the absence of effective market discipline, low-price goods disappeared, wages sky rocketed, and the economy continued to stagnate. Other contributing factors to economic decline have included the failure of the government to privatize the agricultural industry, which has perpetuated gross inefficiency in harvesting, storing, and transporting crops, and the hoarding of large sums of unspent rubles by individuals and businesses, which has resulted in a further devaluing of the ruble and higher inflation.

As the 1990s unfolded, then Prime Minister Nikolai Ryzhkov's government tried to respond to continuing economic decline and building inflationary pressures by submitting a plan for introducing a market economy. Although the document had merit, it was vague on how quickly a market economy would emerge and how property rights would be handled. Its rejection was assured when it called for an unpopular austerity program built around a massive increase in consumer prices. Gorbachev then commissioned a new study which led to economic reformist Stanislav Shatalin's September 1990 "500-Day Plan" for installing a market economy. The plan began by reconstituting the U.S.S.R. as a confederation which would then grant powers to the center! Although Gorbachev

was drawn to many aspects of the Shatalin's scheme, he was unwilling to endorse it.

Currently there is no viable economic reform plan in the Soviet Union which can be viewed as official policy. International forecasters predict Soviet economic output in 1991 may fall more than 5 percent after 1990's 2 percent drop--the largest U.S. annual drop since 1950 was 2.5 percent in 1982--and inflation could exceed 40 percent. Moreover, the ruble is seen as worthless and normal production and distribution systems are breaking down. And Shatalin recently stated that the country "is already on the brink of bankruptcy." Can economic collapse be far away? What does Soviet instability portend for neighbors in Europe, Asia, and the Middle East? And is it time for the United States to reward Gorbachev's international peace initiatives and attempts at reform by underpinning Soviet economic reform with economic and technical assistance?

U.S. Interests and Policy Objectives

Among the broad national interests and objectives presented in President Bush's 1990 U.S. National Security Strategy Report are:

- * encourage greater recognition of the principles of human rights, market incentives, and free elections in the Soviet Union...;
- * support aid, trade, and investment policies that promote economic development and social and political progress; and
- * ...establish a greater sharing of global leadership and responsibilities.

The Report further states that since the West has won the Cold War and successfully contained Soviet expansionism, our goal is

to move beyond containment and seek to integrate the Soviet Union into the international system as a constructive partner. Bush also indicated a willingness to engage the U.S.S.R. in a relationship that is increasingly cooperative. One that is focused on developing the necessary economic and political conditions that will permit the Soviet Union to join and become a viable member in the international community--a task as ambitious as containment was for its time. These specific national interests and goals signify a desire to support and assist economic reform in the Soviet Union and a realization that a predictable and economically stable U.S.S.R. will benefit their citizens, our country, and the rest of the world.

Numerous trade and investment opportunities, such as agriculture, oil, banking, computers, electronics, and general infrastructure development and industrial management, await those corporate and government officials who are willing to assist the Soviet Union's economic development efforts. Moreover, by aggressively supporting economic development in the Soviet Union, in the context of sustaining an emerging Third World ally, we will help to stabilize the country and maintain the integrity of the Union. Although a degree of sovereignty certainly should be offered to each Soviet republic, the majority of the republics are incapable of economically sustaining themselves. Also, dissolution of the Union could threaten neighboring countries in Europe, Asia, and the Middle East with immigration, military, and even nuclear pressures evolving from the new states.

Finally, a sound Soviet economy will enable that nation to assume a proportionate share of the world responsibility to assist developing nations and to maintain world security, especially in its region.

Gorbachev's Predicament

Mikhail Gorbachev's international peace initiatives, arms control concessions, and bold but cautious attempts at instituting a small degree of governmental democratic reform equate to a shining star when viewed in the context of 70 years of oppressive and expansionist Communist rule. There should be little doubt in the West, and even less among U.S. bureaucrats who are experienced in negotiating with the Soviet Union, that Gorbachev is serving as the initial bridge for opening his country to democratic reform. We also must realize that Gorbachev has his own agenda--preservation of the Soviet Union and survival as the country's president--and consequently is walking a narrow line in trying to pacify reformists on the left and conservative preservationists in the Communist Party, KGB, and military. This predicament helps to explain his waffling between democratic-type reforms and strong central party control, and his recent turn to the military to suppress several republics' calls for independence.

Realizing that freedom in our country, both from British rule and slavery, was not achieved in a year, a decade, or even a century, we must give Gorbachev the latitude and time necessary to reinforce his image as a reformer and as a proponent of demo-

cratic values. In a recent meeting with West European foreign ministers, Gorbachev reaffirmed his intention to build a democracy and a market economy but insisted that more time was needed. British Foreign Secretary Hurd and French Foreign Minister Dumas this week reiterated their support for Gorbachev the reformer and their belief that he firmly intends to continue his policy of perestroika. Moreover, they, along with the rest of the European Community (E.C.), have signaled their intention to resume food and financial aid to the U.S.S.R.

It would be wise for the United States to display a similar degree of confidence in Gorbachev, and pursue its stated economic policy objectives regarding the Soviet Union. We should join the E.C. in helping to underpin Gorbachev's economic reform efforts.

U.S. Policy Options

The economic and political secession crises in the Soviet Union have reached a critical stage in the last six months while the United States has been preoccupied with the Persian Gulf. The Soviet economy is reportedly on the verge of collapse, basic necessities are difficult to obtain, and civil war is threatened over the right of individual republics to declare their independence from the Union. Although still a military superpower, the U.S.S.R. is quickly degenerating to a Third World-class economy. What should America do? Among the several policy options that the United States might choose to pursue with regard to the Soviet Union's economic plight are: to take the lead in providing economic and technical assistance; to defer to the European

Community to solve a regional problem; or to let the Soviet Union languish.

U.S. Economic and Technical Assistance.

First, we should tell the libertarians in the Soviet Union to stop whining about Gorbachev. He has taken the first steps toward democracy, and history has shown that great leaders initiate changes rather than finish them. It is in the interest of this country and the Soviet Union to have a known reformist, however deliberate, in power rather than to undermine his presidency with impatience and suffer possible reversion under Gorbachev's successor.

We must encourage the Soviet Union to continue to pursue economic reform and to move toward market economy practices. To support Soviet economic reform on a federal level we can direct the Department of Commerce to grant Most Favored Nation trade status to the U.S.S.R.; support observer status and eventual membership for the Soviet Union in the General Agreement of Tariffs and Trade (GATT) and the International Monetary Fund (IMF); develop a bilateral investment treaty; and have the Agency for International Development survey the possibility of establishing representation in Embassy Moscow.

The business community in the United States also should be encouraged to provide technical assistance to the Soviet economy in the form of financial management; agricultural harvesting, storage, and distribution; plant management and quality control; resource (oil) development and distribution; and general infra-

structure development--communications, transportation, housing, etc.

Let Europe Bail Out Its Neighbor.

This option views the Soviet Union's economic decline and potential disintegration as a regional problem and puts the onus on the European Community. E.C. '92, which is currently addressing future membership for newly liberated East European countries, could broaden its scope to include the Soviet Union as a benefactor of its programs and a trading partner. Moreover, the E.C. could sponsor Soviet membership in GATT and the IMF, as well as encourage businesses to offer the Soviets technical expertise in improving their economy, infrastructure, and industries in exchange for investment opportunities.

Let the Soviet Union Wither on its Economic Vine.

This option supports the notion that the Soviet Union is still the greatest threat to U.S. interests, and therefore we should pursue any course that promotes its decline. The United States is currently suffering its own economic woes due in part to our large military buildup over the past 15 years to contain the expansion of Communism and to reinvigorate arms control negotiations. Therefore, why should we rescue a traditionally military industrial-based economy that once again could threaten to bury us?

Policy Recommendation

The United States now enjoys a unique role as the world's only military and economic superpower. With this new status, we

now more than ever must continue to extend our hand to aid global economic progress. President Bush's 1990 National Security Strategy Report underscores this responsibility and specifically mentions assisting the Soviet Union. Therefore, we should take the lead in providing economic and technical assistance to the floundering Soviet economy, provided that nation continues along the path of at least embryonic democratic reform. This decision would reward Gorbachev for his international peace initiatives and attempts at economic and political reform; would serve our national interests in stabilizing a nation whose people and conservative government institutions need to be educated and reassured as to the benefits of a democratic form of government; and, once economic stability is realized, would enable the Soviet Union to serve as an ally in sharing the burden to develop Third World countries and to contribute to the security of the New World Order.

U.S. businesses also stand to benefit from assisting the Soviet economy. The vast size of the Soviet Union, its large population, and numerous natural resources should provide a significant profit to those businesses and industries which are willing to risk investment in its economic development.

The European Community is too consumed with its own economic reorganization, with aiding former Warsaw Pact countries, and with absorbing large numbers of immigrants to assume the leadership role in assisting the Soviet economy. And for us to do nothing, and let the Soviet economy continue to approach col-

lapse, would undermine our efforts at democratic reform in the U.S.S.R. and would contribute to additional world instability.

Strengths.

- * The policy supports our national interests.
- * The Soviet Union is our most important relationship and and this policy will encourage Gorbachev's faltering drive toward economic reform.
- * Successful economic reform--i.e., a market economy--will foster democratic values and political reform.
- * A viable Soviet economy will stabilize that nation and reaffirm Gorbachev's leadership.
- * This policy will help to dissuade economically dependent Soviet republics from seceding from the Union and adding to the burden of other European countries.
- * U.S. trade and business investment opportunities will be enhanced.
- * And an economically sound Soviet Union will be able to assume its role in assisting developing nations and contributing to the security of a New World Order.

Weaknesses.

- * A strong Soviet economy could pose a threat to U.S. and European trade interests.
- * Forcing a market economy on the Soviet Union could cause conservatives to remove Gorbachev from office and end all reform movements.
- * A revitalized Soviet economy could reawaken Communist expansionism.
- * The policy might be hard to sell in Congress until it is convinced that the Soviets have ceased human rights violations and are willing to negotiate a reasonable time frame for returning sovereignty to the Baltic States.

