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DEPARTMENT OF STATE

Washington, D.C. 20520

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WITH SENSITIVE ATTACHMENT

July 8, 1981

NFAC 42-49-81

MEMORANDUM FOR: See Distribution Below
SUBJECT: East-West Policy Study

A Senior Interdepartmental Group meeting on East-West Policy will be convened on July 13 at 11:00 a.m. in the Department of State. It will be chaired by Under Secretary Stoessel.

The Group will review the attached texts which were revised to reflect the SIG discussion of July 7. The amendments offered to the SIG by the Department of State on economic issues remain on the table; those amendments also are reflected in the two footnoted alternative formulations in the Decision Memorandum.

If the revised papers are approved by the SIG, they will be forwarded to the White House for consideration by the NSC.

John H Kelly
L. Paul Bremer, III
Executive Secretary

Attachments:

- 1. Decision Memorandum
- 2. Executive Summary
- 3. East-West Policy Study

Distribution:

- OVP - Ms. Nancy Bearg Dyke
- DOD - Mr. Jay Rixse
- CIA -
- JCS - LTC John Pustay
- NSC - Mr. Allen Lenz
- ACDA - Mr. Robert Grey
- UNA - Amb. Kirkpatrick

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State Dept. review completed

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MEMORANDUM FOR

SUBJECT: Decision Memorandum on East-West Relations

At the National Security Council meeting held on July 1981, the President made the following decisions concerning U.S. policy on East-West relations. Specifically, the overriding objective of U.S. policy toward the Soviet Union will be to blunt and contain Soviet imperialism. This goal involves raising the costs and risks of Soviet expansion and, to the extent feasible, encouraging democratic processes in the USSR. To these ends, the U.S. will:

1. Restore a satisfactory military balance.

a. Nuclear Forces. [We must restore the nuclear balance and "We must redress the current imbalance through a comprehensive modernization program designed to strengthen deterrence. The Soviets must perceive, in all contingencies, the costs of initiating strategic or theater nuclear attacks as higher than the potential gains."

conventional force structure by (1) creating over time capabilities adequate to deter the full array of Soviet and regional threats, above all in the Persian Gulf area; (2) reversing the deterioration of regional balances in Europe and Asia; (3) establishing an improved margin of maritime superiority; and (4) improving our arms transfer capability by making additional resources available on a timely basis.

c. Arms Control. The U.S. will pursue a realistic arms control policy aimed at achieving balanced, verifiable agreements that directly enhance national security, limiting those Soviet systems which are most threatening to us and protecting essential force modernization plans. We will set tougher substantive standards and seek to develop Western understanding of the time and bargaining leverage that will be required

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before the Soviets will begin to accept significant progress in arms control. Recognizing that prolonged negotiation is better than accepting bad agreements, we will pursue arms control agreements that make tangible contributions to U.S. and allied security. We will not let this serious effort be diluted by the pursuit of agreement for its own sake or for the sake of transitory improvements in political atmosphere.

2. Defend Western Interests in Areas of Instability

a. We will seek to preempt Soviet opportunism through timely diplomacy and constructive economic policies. We should work with our friends to build barriers to Soviet influence in the Third World and should be wary of involving Moscow in the peaceful resolution of regional disputes.

b. The US will adopt a strategy to seize the initiative from the Soviets in the Third W, and by calling attention to the failures of the Soviet approach to development." raise the risks and costs of their involvement -- -- d World, exploiting the vulnerabilities of Soviet proxies wherever prudent. This strategy must be carefully tailored in light of regional, political and cultural realities. We will, as possible, pursue this strategy with our major allies and regional friends,

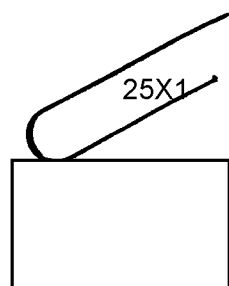
c. This strategy should be applied at once to Afghanistan where, working with other states, we should intensify pressure for a total Soviet withdrawal.

d. In setting priorities among US interests in the Third World the US, its allies and regional friends must be able to defend Western interests in the strategic Persian Gulf and Near East area -- especially Western access to oil -- against direct and indirect Soviet threats.

e. We also must protect our enduring interests in other parts of the developing world, including the Central American area and southern Africa.

3. Improve cooperation with our European and Asian allies and friends.

a. To meet the Soviet threat to US worldwide security interests, US global strategy should join American strength to that of allied and friendly countries. We should draw on an



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informal but interlocking coalition of European and Asian allies, our strategic association with China, and our partnerships with key "Third World" countries. The US should be the fulcrum of this structure, providing the leadership needed to integrate Western assets and defend vital Western interests.

b. Europe. The US will work to forge a new alliance consensus for its strategy towards the Soviet Union. We will urge European leaders to work actively toward reducing the political constraints on their defense policies and to join us in competing effectively with Moscow. Our key goals in Europe are: (1) to improve consultation and coordination, particularly on issues outside Europe; (2) to increase the European commitment of resources to the common defense, both in Europe and in areas vital to the alliance; (3) to achieve

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(3) "To achieve allied agreement on an arms control strategy, and use our participation in arms control processes to seek agreements based on parity, arms reduction and balanced verifiable arms control, while ensuring that negotiations do not become an excuse for delaying NATO force modernization, and placing the burden on the Soviet Union for resisting effective arms control;" particularly on energy, to take collective action to prevent emergence of future vulnerabilities and to reinforce Western economic ties; and (5) to achieve greater understanding for US policies by the current and successor generations of Europeans.

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c. East Asia.

(1) Japan. While reconfirming our commitment to Japanese security, we will encourage the acquisition of a military capability by Japan to provide for its defense, within its constitutional constraints, and encourage greater Japanese engagement in common alliance diplomacy and economic assistance around the world.

(2) China. We will solidify our developing strategic association with China, strengthen China's ability to resist Soviet intimidation and strengthen Chinese defense capabilities selectively, while maintaining our strong support for the security of Taiwan.

(3) We will strengthen security cooperation with our Korean, Australian, New Zealand and Philippine allies, and bolster support for the ASEAN states.

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d. Alliance Problems. We must recognize that it often will be difficult to generate adequate support from our allies and friends, in Europe and Asia, for our policies toward the Soviet Union. This will require some adjustment in US positions and an occasional need for unilateral US action in pursuit of particularly important interests. A Standing Interagency Group is hereby established to ensure proper implementation of the decisions flowing from the East-West study. In addition, an Interagency Group is established and commissioned to conduct a study on major alliance relationships. This study should develop a detailed strategy and tactics for dealing with our allies and friends in the pursuit of major US political, economic and military objectives.

4. Refashion East-West economic relations to make them consistent with broad US political-military objectives.

Future Western economic policy must meet three major criteria:

a. It must not increase the Soviet capacity to wage war. US policy will seek significantly improved control over the transfer of technology important to military production and to industrial sectors that indirectly support military capabilities.

b. It must narrow opportunities for Soviet economic leverage over the West and cap* -- and ultimately reverse -- political vulnerabilities arising from the growth of East-West economic and energy interdependence.

c. It must not ease** general Soviet resource constraints, associated political difficulties or responsibility for East European economic problems.

5. Promote Positive Trends in Eastern Europe.

US policy objectives in Eastern Europe are to work with our allies to support greater internal liberalization, foreign policy autonomy and contacts with the West, while seeking to discourage Soviet intervention to block indigenous reform movements. In the short term, assuming no Soviet intervention in Poland, we should confirm our differentiated approach to East European states, seeking to improve relations and be

* State proposes to delete "cap" and substitute "seek to limit".

** State proposes to delete "ease" and substitute "unduly relieve".

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forthcoming with countries that are relatively liberal or independent, while dealing with other East Europeans on the basis of strict reciprocity. (A Soviet invasion of Poland involving East European troops would freeze relations for a protracted period). In the longer-term, we would seek to foster liberalization and autonomy and US influence by intensifying contacts and building increased economic ties with appropriate East European countries.

6. Spotlight the deficiencies of the Soviet system.

We will provide ICA and BIB with increased resources to step up broadcasting activities to the Soviet Union, the satellites, Soviet Third World clients and countries important to U.S. interests. We must pursue policies in the developing world that offer a positive vision of the future and promote peaceful democratic change, in order to underscore the contrast between what East and West have to offer.

7. Maintain Effective Communication with the Soviet Union.

A regular U.S.-Soviet dialogue is not incompatible with our more competitive U.S. East-West policy. We must maintain communication to prevent dangerous misunderstandings, ensure that the USSR neither exaggerates nor underestimates our purpose, and demonstrate our openness to constructive Soviet approaches. We also should preserve options for some positive interaction with the USSR on the basis of reciprocity and U.S. national interests. All proposals for East-West negotiations will be subjected to rigorous review to ensure consistency with clearly defined Western interests.

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EAST-WEST POLICY STUDY

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EAST-WEST POLICY STUDYEXECUTIVE SUMMARY1. Overview: The Present Situation and Future Prospects

The Soviet-American relationship will be entering a new and dangerous phase during the coming decade, independent of any major US policy changes. Increased Soviet power threatens the free and open international order the U.S. has sought to maintain throughout the postwar period. The most urgent dangers are: (1) Soviet use of its own and proxy forces to acquire new strategic advantages, particularly in politically unstable but vital regions; and (2) Soviet efforts to divide the US from its major allies through a combination of threats and inducements.

In this setting, our East-West policy will be based on the following premises: (1) that the East-West competition reflects fundamental and enduring conflicts of interests, purpose and outlook; (2) that the US should move beyond its passive post-Vietnam foreign policy and provide greater leadership to enable the West to compete more effectively; (3) that over the near term, given the legacy we have inherited, we often will have to compete with the USSR under unfavorable circumstance; and (4) some positive interactions and negotiations with Moscow are possible and desirable and can help to sustain a consensus both at home and abroad in favor of a more competitive posture.

Our ability to meet this challenge will have to be based on a long-term effort to rebuild American and Western power and willingness to assume higher risks in defending our interests. We cannot reverse trends favoring the Soviet Union overnight; to do so at all will require considerable patience and resourcefulness. In the short term, we must make use of our existing assets more efficiently by taking advantage of special areas of American and Western strength, while exploiting Soviet weaknesses and vulnerabilities.

US global strategy must improve our position by joining American strength to that of allied and friendly countries. We should draw on an informal but interlocking coalition of European and Asian allies, our strategic association with China, and our partnerships with key "Third World" countries. The US must be the fulcrum of this structure, providing the leadership needed to integrate Western assets and defend vital Western interests. On this basis we can ensure a sustainable internationalist US foreign policy for the 1980s.

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We recognize that it often will be difficult to generate adequate support from our allies and friends for US policies toward the Soviet Union. The US goals enumerated in the study represent our desiderata. We recognize that it will be necessary to make some adjustments in US positions in working out compromises with our allies on East-West issues. Some US interests will be of sufficient importance that we will need to act unilaterally in pursuing particular courses of action. The NSC therefore should commission an urgent study on Major Alliance Relationships, developing a detailed strategy and tactics for dealing with our allies, both in Europe and in Asia, in the pursuit of major US political, economic and military objectives. The NSC also should establish a Standing IG to ensure proper implementation of the decisions flowing from the East-West study.

The Soviet Union will act vigorously to protect and expand its position against a newly assertive American foreign policy; it has a great many instruments for doing so. We should avoid unnecessary confrontations and take account of vital Soviet interests in devising means for countering aggressive Soviet behavior. But this should not keep us from competing forcefully with the USSR in defense of our own interests. We cannot buy time by accommodation; such a course also would mislead our public and our allies as to our purposes and steadfastness. Moscow is likely in any case to take actions that challenge our interests and the costs of accepting aggressive Soviet behavior are simply too high.

The long-term weaknesses of the Soviet Union, the economic and political strengths of the West and the mandate embodied in the November elections encourage us to believe that an effective policy toward the Soviet Union is within our reach as long as we make full use of our strengths. Yet the material costs and political difficulties must not be understated. Large and continuing economic burdens for defense must be patiently and skillfully defended before the Congress and the public. We will have to create and enlarge relationships with states that are critical Soviet targets or strategically decisive. Finally, regaining the initiative will sometimes require that we accept immediate risks in order to avoid greater albeit more long-term ones. For example, security assistance to endangered allies and friends at this time can avoid more serious problems later.

A strong consensus both at home and abroad will be crucial to sustaining these policies. We also will have to take the lead on issues of critical importance, without letting uncertainty over the extent of domestic or

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allied support deprive us of essential freedom of action. Success will depend on a strong sense of priorities and on effective leadership.

II. Soviet Strengths and Weaknesses

Management of the East-West relationship requires a dispassionate tallying of Moscow's strengths and weaknesses. Over the near term, the Soviet Union possesses several distinct advantages in its competition with the United States: First, it enjoys, and in the short term will increase its significant military advantages in key regions, accompanied by a greatly improved nuclear balance; second, it is in a position to exploit instability in many areas of the developing world crucial to Western interests, particularly the Persian Gulf; third, it has built up a network of allies, clients and proxies throughout the Third World; fourth, from their recent use, Soviet armed forces and those of its allies and proxies are gaining operational self-confidence and an enhanced capacity for intimidation; fifth, it can play upon a residual Western attachment to detente to separate the US from its allies; and sixth, Moscow can pursue its objectives in relative freedom from domestic political constraints and dependence on foreign resources.

At the same time the Soviets must contend with a number of liabilities: First, Soviet economic growth will continue to stagnate in this decade for reasons inherent in the system itself; second, the USSR is on the verge of a wholesale leadership change that could hamper the conduct of foreign policy; third, all the industrial democracies and China are hostile to the USSR, which threatens their security interests; fourth the Soviets may increasingly suffer from imperial overextension, due to the weaknesses of Soviet proxies and dependents and the instability of Eastern Europe, if the West shows sufficient resistance; and finally, Marxism-Leninism is a bankrupt ideology which fails to answer the needs either of the people it is purported to serve or of the developing nations in the Third World.

Unfortunately, these long-term liabilities do not lessen the dangers that we now face. Indeed, the combination of short-term strengths and long-term weakness may prompt the Soviets to capitalize on their advantage now. The Soviets may regard the energy vulnerability of the West and their own ability to exploit military power for political purposes in the Persian Gulf area as an opportunity of historic proportions to cripple the Western alliance once and for all. Moscow's long-term problems will be of little

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benefit to us unless we can defend our interests over the short-run and establish trends favorable to us.

III. U.S. Policy Toward East-West Relations

The overriding objective of U.S. policy toward the Soviet Union is to blunt and contain Soviet imperialism. This goal involves appreciably increasing costs and risks of Soviet expansionism and, to the extent feasible, encouraging democratic processes in the USSR.

This Administration will pursue the following goals with regard to the Soviet Union:

A. Restoring a satisfactory military balance.

Because military power is a necessary basis for competing with the Soviets effectively, US forces will have to be increased across the board. The Soviets have widened their existing superiority in conventional forces in Europe, Asia and the broad Persian Gulf/Middle East region, supplementing them with a network of proxies in the Third World. This has occurred against the backdrop of a shift in the strategic and theater nuclear balances, which weakens deterrence and the US strategic commitments on which it is based.

Military modernization must emphasize the procurement of systems which take advantage of American strengths and exploit Soviet vulnerabilities, including those of Soviet proxies.

o Nuclear Forces. The overall nuclear balance is not satisfactory, and our programs of strategic and theater modernization are not yet, even in combination, adequate to redress the balance. "We must redress the current imbalance through a comprehensive modernization program designed to strengthen deterrence. The Soviets must perceive, in all contingencies, the costs of initiating strategic or theater nuclear attacks as higher than the potential gains.

that provide emerging capability to destroy targets of military significance. Consideration of effective anti-ballistic missile systems also should be considered.

o Regional Forces. The forces of the US and its allies are insufficient to meet common security needs. Accordingly, the US must modernize and expand its conventional force structure with emphasis on four areas. First,

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in cooperation with our allies and regional nations, we must work to create capabilities adequate to meet the full array of Soviet and regional threats, above all in the Persian Gulf area. We must improve our own capability to utilize access to local facilities already obtained, working steadily for gradual increases as regional nations gain more confidence in us. Second, we must reverse the deterioration of regional balances in Europe and Asia. Third, the US must establish an improved margin of maritime superiority to put at risk the global Soviet navy and to strengthen our capacity to manage the regional crises. Finally, the US should improve its arms transfer capability by making additional resources available on a timely basis to meet the needs of regional allies threatened by the Soviets or their proxies.

Our arms control policy must be an integral element of our national security policy. The US should pursue a realistic arms control policy aimed at verifiable agreements that directly enhance national security by limiting those Soviet systems which are most threatening to us and facilitating our force modernization plans. Disarmament or restrictions on new technologies for their own sake should be eschewed, as well as agreements negotiated simply to improve the atmosphere of superpower relations. Instead, we need to set tougher substantive standards that challenge the Soviets to accept true parity at reduced levels and prepare both US and European public opinion to accept no agreements at all if these are not met. The US needs to establish the primacy of our own military programs as the basis for assuring security; indeed, this is the only way we can expect to achieve meaningful limits on Soviet weaponry. We should recognize that this arms control strategy may make it unlikely that negotiated agreements will be achieved in the short run.

B. Defending Western interests in areas of instability.

The greatest danger of Soviet use of military force, either directly or by proxy, arises in the Third World. The US must break out of its post-Vietnam passivity and adopt a counter-offensive strategy that seizes the initiative from the Soviets by opposing them and their proxies, where possible at times and places of our own choosing. Such a strategy would seek to discourage the further use and growth of the proxy network by driving up both risks and costs of Moscow's Third World involvements, by exploiting the vulnerabilities of Soviet proxies and by weakening their Soviet connection through appropriate use of incentives and disincentives. Many of these regimes are narrowly based with severe ethnic, social, sectarian and economic problems.

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Afghanistan, Cuba, South Yemen, Libya, and Ethiopia represent particularly important points of Soviet exposure. On an ideological plane, the US should put the spotlight on the aggressive activities and internal shortcomings of Soviet proxies and keep them on the defensive. This counter-offensive strategy must be carefully tailored in light of regional, political and cultural realities.

We also should seek to preempt Soviet opportunism through timely political action and constructive economic policies to prevent instability, promote prosperity and resolve disputes. Our concerns for security and peaceful progress are mutually reinforcing. It is essential that the United States continue to present a positive alternative to the arms and repression that the Soviet Union offers to the Third World, while understanding that our support for some types of political and economic reform can generate instability which can be exploited by Moscow.

Given our present constraints, we need to set priorities among US interests in the Third World. Above all, the US and its allies must be able to defend Western interests in the strategic Persian Gulf and Near East area. We, together with our allies and regional friends, need capabilities adequate to protect Western access to oil against direct challenge and to respond to the politically disruptive shadow cast by Soviet power. Horizontal escalation may be a useful stop-gap but cannot itself be counted on to deal with the threat as the Soviets have such options of their own. We must expand cooperation with allies outside of the region and with regional friends that are capable of countering Soviet proxies. But our experience in Iran indicates that there is no substitute for direct U.S. power projection and such cooperation is likely to be achieved only if the US can demonstrate its own increased capability and commitment to help its friends.

Our counter-offensive strategy should be applied at once to Afghanistan. We should with other states combine intense political pressure for a total Soviet withdrawal, appropriate encouragement to Afghan freedom fighters, major security assistance to Pakistan and a concerted political program to illuminate Soviet aggressive behavior in the Third World.

Finally, our emphasis on the Persian Gulf should not obscure our enduring interest in other parts of the developing world, particularly the current volatile Central American area, the ASEAN states and southern Africa.

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West-West quarrels of the sort that plighted the last administration; if there are hard times ahead with Moscow, they should benefit, not harm the alliances. We must urge European leaders to work actively toward reducing the political constraints on their defense policies and to join us in countering Moscow.

Our key goals in Europe are:

o To improve and enlarge consultation and coordination with our allies, particularly on issues outside Europe.

o To increase our allies' commitment of resources to the common defense, both in Europe and in areas vital to the alliance. The US must provide defense leadership and a nuclear umbrella, but the allies must do more in strengthening conventional forces and sustaining LRTNF modernization. We will have to seek a redefinition of the "division of labor."

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o To achieve agreement "To achieve allied consensus on arms control strategy we should seek agreements based on parity, arms reduction and balanced verifiable arms control. In this way we can meet the allied political need for a verifiable arms control process, while ensuring that negotiations do not interfere with NATO force modernization, and placing the burden on the Soviet Union for resisting effective arms control. In particular . . ."

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o To prevent Western economic dependence, particularly in energy, on the Soviet bloc, to take collective action to prevent the emergence of future vulnerabilities and to reinforce Western ties. We must put major pressure on the Europeans to minimize the strategic implications of the proposed European/Soviet gas pipeline. Common policies are needed on export credits and technology transfer. The coverage and effectiveness of COCOM rules should be improved.

o To achieve greater understanding of US political, economic and defense policies by European public and parliamentary opinion, especially among the "successor generation" of Europeans.

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C. Improving Cooperation with our European Allies.

The US must forge a new alliance consensus for its strategy towards the Soviet Union, against the background of European doubts about American leadership, extensive economic links with the Soviet bloc, energy dependence on the Middle East and fear of Soviet power. We should avoid West-West quarrels of the sort that plagued the last administration; if there are hard times ahead with Moscow, they should benefit, not harm the alliance. We must urge European leaders to work actively toward reducing the political constraints on their defense policies and to join us in countering Moscow.

Our key goals in Europe are:

o To improve and enlarge consultation and coordination with our allies, particularly on issues outside Europe.

o To increase our allies' commitment of resources to the common defense, both in Europe and in areas vital to the alliance. The US must provide defense leadership and a nuclear umbrella, but the allies must do more in strengthening conventional forces and sustaining LRTNF modernization. We will have to seek a redefinition of the "division of labor."

o To achieve agreement among allies on an arms control strategy we should meet the allied political need for a visible arms control process, and to use that process to demonstrate US commitment and Soviet resistance to parity, arms reduction and effective, verifiable arms control, while ensuring that negotiations do not interfere with NATO modernization. In particular, while maintaining a deliberate track for negotiating LRTNF arms control, we must resist delays in modernization and deployment.

o To arrest growing European economic dependence, particularly energy, on the Soviet bloc, to take collective action to prevent the emergence of future vulnerabilities and to reinforce Western ties. The proposed European/Soviet gas pipeline is not in our interest and should be handled to avoid further European vulnerability. Common OECD policies are needed on export credits and technology transfer. The coverage and effectiveness of COCOM rules should be improved. These policies also will require a consistent US policy of denying the Soviets important economic support.

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o To achieve greater understanding of US political, economic and defense policies by European public and parliamentary opinion, especially among the "successor generation" of Europeans.

D. Developing the Potential of East Asian Allies and Friends.

East Asia has enormous economic capability, but is militarily weak. Both Japan and China will face major difficulties in realizing their very large growth potential as counter-weights to Soviet power. As they do so, US policy will aim to increase the security of the region against outside pressures and interference and to preserve balance among the East Asian powers. We can reach this goal by encouraging the strengthening of friendly regional states, while recognizing that their power cannot become a substitute for that of the US. We will need to continue to play a crucial balancing and integrating role.

Japan and China have the greatest potential.

o In light of Japan's key role as an ally and the world's second largest economic power, we should afford Tokyo equal status and treatment with our NATO allies, consult closely with the Japanese and encourage recent trends toward greater Japanese engagement in global issues. Japan should play a greater role in areas of common alliance concern outside East Asia through supportive diplomacy and economic assistance. While reconfirming our commitment to Japanese security, we also will encourage the acquisition of a military capability by Japan to provide for its defense, within its constitutional constraints, in such critical areas as air defense, anti-submarine warfare and protection of sea lanes in the Pacific.

o China's hostility to the USSR is of great political and strategic importance; our goal is to solidify our developing relationship with China and to strengthen China's ability to resist Soviet intimidation. But the Sino-American strategic association must be handled with care, as Chinese interests and ambitions sometimes diverge from our own. We should strengthen Chinese defensive capabilities selectively while maintaining our strong support for the security of Taiwan.

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D. Developing the Potential of East Asian Allies and Friends.

East Asia has enormous economic capability, but is militarily weak. Both Japan and China will face major difficulties in realizing their very large growth potential as counter-weights to Soviet power. As they do so, US policy will aim to increase the security of the region against outside pressures and interference and to preserve balance among the East Asian powers. We can reach this goal by encouraging the strengthening of friendly regional states, while recognizing that their power cannot become a substitute for that of the US. We will need to continue to play a crucial balancing and integrating role.

Japan and China have the greatest potential.

o In light of Japan's key role as an ally and the world's second largest economic power, we should afford Tokyo equal status and treatment with our NATO allies, consult closely with the Japanese and encourage recent trends toward greater Japanese engagement in global issues. Japan should play a greater role in areas of common alliance concern outside East Asia through supportive diplomacy and economic assistance. While reconfirming our commitment to Japanese security, we also will encourage the acquisition of a military capability by Japan to provide for its defense, within its constitutional constraints, in such critical areas as air defense, anti-submarine warfare and protection of sea lanes in the Pacific.

o China's hostility to the USSR is of great political and strategic importance; our goal is to solidify our developing relationship with China and to strengthen China's ability to resist Soviet intimidation. But the Sino-American strategic association must be handled with care, as Chinese interests and ambitions sometimes diverge from our own. We should strengthen Chinese defensive capabilities selectively while maintaining our strong support for the security of Taiwan.

Beyond China and Japan, we will strengthen security cooperation with our Korean, Australian and New Zealand allies. We will also want to bolster support for the ASEAN states to promote their Western orientation and to strengthen their ability to stand up to Vietnamese and Soviet expansionism.

E. Refashioning East-West economic relations to make them consistent with broad US political-military objectives.

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Far from moderating Soviet political-military behavior, the extensive East-West economic ties of the past decade have created constituencies among our allies, some of whom are vulnerable to Soviet pressure. We need to define the guidelines for permissible East-West trade. Future Western economic policy must meet three major criteria:

o It must not increase the Soviet capacity to wage war. US policy will seek significantly improved controls over the transfer of technology important to military production and to industrial sectors that indirectly support military capability.

o It must narrow opportunities for Soviet economic leverage over the West. While recognizing the greater stake of our allies in commercial ties with the East, we must seek to limit and ultimately to reverse political vulnerabilities arising from the growth of East-West economic and energy interdependence.

o It must not unduly relieve general Soviet resource constraints, associated political difficulties or responsibility for East European economic problems.

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F. Promoting Positive Trends in Eastern Europe.

Eastern Europe probably will have a more volatile and dynamic character in the 1980s, posing major political management choices for Moscow. The current Polish crisis forms an historic watershed for Soviet imperial policy. While Moscow doubtless will use force where necessary to keep its bloc in order, the Polish experiment is testing -- and perhaps stretching -- the limits of Soviet tolerance.

US policy objectives in Eastern Europe are to work with our allies to support greater internal liberalization, foreign policy autonomy and contacts with the West, while seeking to discourage Soviet intervention to block indigenous reform movements.

-- In the short term, assuming no Soviet intervention in Poland, we should confirm our differentiated approach to East European states, seeking to improve relations and be forthcoming with countries that are relatively liberal or independent, while dealing with other East Europeans on the basis of strict reciprocity. A Soviet invasion of Poland involving East European troops obviously would freeze

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Beyond China and Japan, we will strengthen security cooperation with our Korean, Australian, New Zealand and Philippine allies. We will also want to bolster support for the ASEAN states to promote their Western orientation and to strengthen their ability to stand up to Vietnamese and Soviet expansionism.

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E. Refashioning East-West economic relations so that the Soviet Union is helped neither to strength itself militarily nor to escape the full costs of its internal problems.

Far from moderating Soviet political-military behavior, the extensive East-West economic ties of the past decade have created constituencies among our allies, some of whom are vulnerable to Soviet pressure. We need to define the guidelines for permissible East-West trade. Future Western economic policy must meet three major criteria:

o It must not increase the Soviet capacity to wage war. US policy will seek significantly improved controls over the transfer of technology important to military production and to industrial sectors that indirectly support military capability.

o It must narrow opportunities for Soviet economic leverage over the West. While recognizing the greater stake of our allies in commercial ties with the East, we must try to cap and ultimately reverse political vulnerabilities arising from the growth of East-West economic and energy interdependence.

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o It must not ease Soviet resource constraints or associated political difficulties by relieving Moscow of the burdens of its own economic problems or of responsibility for those of Eastern Europe.

F. Promoting Positive Trends in Eastern Europe.

Eastern Europe probably will have a more volatile and dynamic character in the 1980s, posing major political management choices for Moscow. The current Polish crisis forms an historic watershed for Soviet imperial policy. While Moscow doubtless will use force where necessary to keep its bloc in order, the Polish experiment is testing -- and perhaps stretching -- the limits of Soviet tolerance.

US policy objectives in Eastern Europe are to work with our allies to support greater internal liberalization,

foreign policy autonomy and contacts with the West, while seeking to discourage Soviet intervention to block indigenous reform movements.

-- In the short term, assuming no Soviet intervention in Poland, we should confirm our differentiated approach to East European states, seeking to improve relations and be forthcoming with countries that are relatively liberal or independent; while dealing with other East Europeans on the basis of strict reciprocity. A Soviet invasion of Poland involving East European troops obviously would freeze relations for a protracted period and present major strategic questions for our East European policy. Whether there is an invasion or not, we must keep the pressure on Moscow to bear a large share of the economic burden.

In the longer-term, we seek to foster liberalization and autonomy by intensifying contacts. Endemic East European debt and economic problems should permit us to build increased economic ties with appropriate East European countries, thereby enhancing both our influence and their internal freedom of action. In doing so, we should employ established multilateral institutions, such as the IMF and Western creditor clubs, to avoid perpetuating chronic economic weaknesses. This strategy must be coordinated with our allies, banks, unions and private groups.

G. Gaining the ideological initiative by spotlighting the deficiencies of the Soviet system.

The long-term weaknesses of the Soviet system can be encouraged in part simply by telling the truth about the USSR. The Soviet Union faces nascent problems among its nationalities (particularly in the Baltic states and among Muslim groups in Central Asia) and from its own working class. The United States should provide ICA with increased resources to step up broadcasting activities, where needed, to the Soviet Union, the satellites, Soviet Third World clients and countries important to US interests, highlighting the economic and moral failings of Moscow and its allies.

The expansionist international behavior of the Soviet Union and its repressive, stagnant internal system make it vulnerable to a moral counter-attack. Yet the US must also offer a positive vision of the future. By promoting peaceful democratic change, US policy will be able to give substance to this positive view and prevent the emergence of Soviet opportunities.

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H. Maintaining effective communication with the Soviet Union.

A regular US/Soviet dialogue is not incompatible with a more competitive US East-West policy. Indeed, effective communication is essential to prevent dangerous misunderstandings of our intentions and resolve, particularly at moments of high tension. We must ensure that the USSR neither exaggerates nor underestimates our purpose, and we should demonstrate our openness to constructive Soviet approaches.

Visible US/Soviet contacts -- and appropriate negotiations -- can be used in seeking to sustain political support at home and in allied countries for a competitive Western policy toward the USSR. But such contacts must not prevent us from vigorously defending our policies in public. Nor can they be allowed to divert us from necessary tough and costly measures by falsely suggesting that fundamental differences have been resolved. The Soviets can be expected to exploit such contacts and seek to convince our allies and our own public that negotiations should become a substitute for forceful political, economic and military measures. Moscow also will make major efforts to divide us from our allies on these issues. We must firmly resist these Soviet efforts.

We need to subject all proposals for negotiations to rigorous USG and appropriate allied review and ensure that our participation and negotiating strategy are consistent with clearly defined Western interests. Certain negotiating forums can be useful for either arms control or political purposes; we should know the difference. In European arms control discussions, for example, we can challenge the Soviets to accept true parity at reduced levels; in other East-West forums, such as CSCE, we can challenge them to honor commitments made and to build East-West relations on the basis of strict reciprocity.

We must recognize that US/Soviet bilateral diplomacy can sometimes undermine our larger purposes. In Third World crisis areas, in particular, where we aim to work closely with our friends in building barriers to Soviet influence, the Soviet Union generally will not be helpful. We should recognize the limitations -- and disadvantages -- of seeking to involve Moscow in the peaceful resolution of regional disputes and should not expand or legitimize the Soviet role. Instead, the West should exploit its singular capacity to

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work with the key parties to such disputes. Finally, if in the longer term the Soviet Union seeks to deal with its internal or international liabilities through genuine cooperation with the West, we should be prepared to conduct meaningful negotiations, ensuring that our overall interests are protected.

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EAST-WEST POLICY STUDY

I. Introduction - U.S. Goals

Interests

The Soviet-American relationship -- and with it U.S. East-West policy -- is entering a new era. The central interests of the United States are in considerable jeopardy and we are entering a period as perilous as any since World War II. Increased Soviet power has thrown into question U.S. ability to secure those interests that our post-war policy has tried to promote:

-- An open and diverse international order, in which the U.S. and its allies are able to prevent the growth of Soviet dominion and influence.

-- The protection and enlargement of the free world, and the promotion of peaceful political change.

-- A stable, open and growing world economy, in which Western access to vital natural resources -- the precondition of the political independence and economic stability of the industrial democracies -- is protected.

Assumptions

U.S. East-West policy must protect these broad interests. Our efforts to do so will be based on the following assumptions:

-- First, that the Soviet-American competition is based on fundamental and enduring conflicts of interest and outlook. It is essential that we recognize the USSR for what it is: an expansionist superpower which sees East-West relations as a protracted political and military competition for transforming the global "correlation of forces." The West should not expect to achieve its broader international objectives unless it treats the USSR as a tenacious competitor whose performance provides ample evidence of a strong and increasing readiness to promote its interests by aggression, intimidation, and subversion.

-- Second, that the American people have expressed a desire to move beyond the passivity that marked U.S....

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foreign policy in the aftermath of the Vietnam War. It is recognized that, to compete successfully, the U.S. will need to commit increased resources and to exercise greater international leadership in meeting the goals we share with other states. To preserve this new consensus, the U.S. will have to avoid both the overextension and vacillation that shattered earlier policy. A New American Internationalism must focus sharply on our national interests and the interests of our allies. In this regard capabilities and objectives will always have to be matched and resources must be used effectively and wisely; for now, this match requires significantly increased capabilities. These are essential ingredients of an internationalist foreign policy, and global strategy, which are sustainable through the 1980's.

-- Third, because many of the trends of the past decade have been adverse, the United States will be obliged to conduct the East-West competition in often unfavorable circumstances. It will have to be especially attentive to using those instruments of policy that can be made available in the short-term, and careful to do nothing that further weakens the Western position. It will have to understand the distinctive assets and liabilities of the Soviet Union, taking the initiative against exposed Soviet positions. Only by shortening the response time of U.S. decision-making will we be able to exploit opportunities as they appear. Such an approach will require increased Congressional support for the needed assets (money, military equipment, etc.)

-- Fourth, that the Soviet Union should be expected to meet a U.S. counteroffensive with strong measures of its own. The Soviet Union has a strong position to protect and will act vigorously to do so. This does not mean that we should not compete more forcefully and vigorously with the USSR to protect U.S. national interests. The costs of accepting the current trends and Moscow's aggressive global behavior are simply too high. At the same time, we need to go in with our eyes open and think about Soviet reactions; their options for frustrating our objectives; their ability to make our pursuit of this strategy very costly in political, economic, and military terms -- recognizing that some Soviet responses will be designed to demonstrate the high costs in order to forestall such future actions by us. We need strategies for dealing with these Soviet actions and countering them.

We also need to identify the risks the Soviets are willing to run to safeguard their interests and prevent the

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erosion of favorable military balances and political positions. How are these risks likely to vary according to regional area or specific issue? To answer this we will have to understand what the Soviets most value and most fear. We must shape policies that counter the Soviet challenge without so threatening fundamental Soviet values or achievements that they see little to lose by opposing us or our friends -- and, indeed, a lot to lose by not doing so.

-- Fifth, that while the US-Soviet relationship will be predominantly competitive for the foreseeable future, there will remain areas where some degree of positive interaction with Moscow could serve U.S. interests. At the most basic level this will involve the day-to-day conduct of consular and other official business, but it can also encompass joint action in such areas as nuclear nonproliferation, law of the sea matters, trade in some non-strategic areas, and, under proper conditions, arms control negotiations. To the extent a differentiated policy between the USSR and Eastern Europe is to have any meaning, moreover, it assumes a broader scope of cooperative activities with the latter countries.

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Goals

The overriding objective of U.S. policy toward the Soviet Union is to blunt and contain Soviet imperialism. The expansion of the Soviet Union and its proxies presents a fundamental threat to the security of the free world and complicates equitable solutions of many of the world's social, economic and ethnic problems.

Soviet imperialism is the result of two factors: a) the illegitimate nature of its communist regime, in which a small self-perpetuating elite maintains its privileged positions primarily by generating continuing foreign tensions; and b) the relatively low cost to Moscow in recent years of foreign subversion and conquest.

Blunting and containing Soviet imperialism entails the following: a) appreciably raising the costs and risk of Soviet expansionism and Soviet use of military power for purposes of political coercion; and b) to the extent feasible, encouraging democratic processes in the USSR which reduce the authority and privileges of the ruling elite and enhance the participation of their citizens in political and economic decision-making at all levels.

Over the next half decade U.S. policy will seek to attain the following goals:

-- First, to restore international confidence in U.S. policy and leadership.

The potential strength of the West is sufficient that reorienting our policies toward a more competitive East-West

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stance and Western rearmament will be significant even in advance of actual improvements in the defense balance. But to succeed, US leadership of such a reorientation must be convincing. This will require that it be consistent and realistic in the eyes of our friends and allies. Continuing demonstrations are needed that a new course will be sustained and will become permanent. Changes in course or early failures will squander what confidence and sense of momentum we are able to inspire by a firmer rhetorical approach. Nothing could be more damaging than to raise doubts that an enduring change has taken place.

-- Second, to restore a favorable military balance.

Having achieved a domestic consensus on the need to arrest and reverse adverse trends in the East-West military balance, we must design, organize, and deploy our forces in ways that optimize both their deterrent value and their combat effectiveness. Because of the scale and pace of recent Soviet military construction, U.S. forces will have to be increased at every level; improvements are needed both to meet new Soviet conventional capabilities and increases in Soviet power projection, and to provide a wider menu of nuclear options with which the U.S. cannot only threaten escalation but dominate an actual escalation process. Because of its magnitude, this build-up will have to proceed in accord with strictly defined priorities and as part of a long-term defense plan.

-- Third, to increase cooperation with U.S. allies and other states that share our interests, as part of an integrated global strategy.

We can neither do everything on our own nor justify unilateral U.S. responses when other interests are engaged as much if not more than our own. Key elements of our strategy for restoring a more satisfactory military balance require allied cooperation. Hence, for practical, political reasons, and for reasons relating to our collective strength, we must work closely with our allies.

-- U.S. policy will seek to repair and cement relations in Europe in order to reduce Soviet leverage, to ensure allied support for key defense programs and to use the combined resources of the Europeans to contain the Soviets locally and counter them in areas of critical importance to the West -- especially the vital Persian Gulf. The U.S. will work with leaders of the NATO states, where possible to break the constraints that have hindered fuller contributions to the common defense.

-- In East Asia, the U.S. will seek to bolster our allies, especially Japan, and cooperate with China to limit the expansion of Soviet power in this region. Our strategic association with China will continue to aim at tying down a significant portion of the Soviet military establishment, and at preventing either a direct Soviet attack or a Sino-Soviet reconciliation. The U.S. will create a stable regional environment in which Japanese local defenses can be strengthened, and in which Japan will be able to contribute resources to the defense of Western interests elsewhere.

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-- In other areas of instability, particularly the vital region around the Persian Gulf, the U.S. will need to find close partners for the containment of Soviet expansionism. It will aid states that are capable of contributing to regional stability and especially those that can take the initiative against client or proxy states of the Soviet Union. High priority will also be given to acquiring the regional military presence for the United States that can deter Soviet activity and can make other states willing to undertake cooperative measures with us.

-- U.S. policy will seek to make systematic global use of these separate relationships, so that they reinforce each other in countering the USSR. It also should integrate the political, economic, and military arms of Western power. These mutually supportive policies can create the resources and instruments needed for effectively waging East-West competition.

-- Fourth, to drive up the costs to the Soviet Union of global competition and to undermine its past gains.

U.S. policy will aim to discourage Soviet use of proxies to expand its influence, to erode past Soviet gains, and to deter risk-taking.

-- The Soviet Union has been able to limit both the risks and costs of expansion by use of a network of proxy states and movements. The U.S. will seek to discourage the further use and growth of the Soviet proxy network. It will identify and exploit the peculiar vulnerabilities of individual Soviet proxies in order to preoccupy them with their own problems, without driving them further into Moscow's embrace. It will limit their activities by driving up the costs of doing the Soviet's work. To the extent possible it will provide carrots and sticks to encourage them to turn away from the Soviets. It also will demonstrate to the Soviet Union that widened use of proxies raises the risks of dangerous unproductive confrontations and undermines prospects for cooperative activities in areas of interest to Moscow.

-- Where past Soviet gains have created new targets for Western policy, the U.S. will seek to increase both

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the military and economic drain on Soviet resources and attention that they require. In Eastern Europe, a differentiated U.S. policy will encourage greater foreign policy autonomy, domestic liberalization and enhanced Westernization, seeking in particular to exploit endemic East European economic problems to this end.

-- We will work to ensure a continuing political and economic cost for the Soviet occupation of Afghanistan in the aftermath of the partial lifting of the grain embargo. More broadly, we will drive up the cost to the Soviets through allied cooperation to control technology exchange and broad trade policy.

-- Fifth, to take the ideological offensive.

The Soviet Union, by virtue of its arthritic system, of its expansionism and of the activities of and difficulties confronting the regimes it has created and supported beyond its borders, is vulnerable to moral and ideological counter-attack. U.S. policy will exploit this vulnerability.

-- The U.S. will seek to imbue the developing world with a positive vision of the future, rather than relying only on a negative view of a world free from Soviet domination. By promoting peaceful democratic change, U.S. policy will be able to give substance to this positive view and prevent the emergence of Soviet opportunities.

-- The U.S. will be more outspoken in support of institutions and practices that reflect our free way of life, while being more forthright in confronting those fundamentally hostile to us. In doing this we will need to distinguish carefully between those who fundamentally oppose us and others (e. g. Zimbabwe) with whom we can work. By continuing attention to the systematic denial of human rights in the Soviet Union, U.S. policy will seek to throw the Soviets on the defensive internationally. In this way, and by highlighting the historic Soviet unresponsiveness to the true development needs of the Third World, we can reduce the influence that the Soviet Union and its proxies have enjoyed among the populace and opinion leaders in LDCs as well as in international organizations and the Non-Aligned Movement.

-- Soviet pressures on Poland must be cited to remind others that Soviet policy aims above all at denial of the rights of states, imposing a Brezhnev Doctrine-type "limited sovereignty" on them, and the creation of spheres of influence.

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-- Sixth, to maintain effective communications with the Soviet Union, and to preserve options for some positive interaction with the USSR, on the basis of reciprocity and U.S. national interests.

A regular US/Soviet dialogue is not incompatible with a more competitive US East-West policy. Indeed, effective communication is essential to prevent dangerous misunderstandings of our intentions and resolve, particularly at moments of high tension. We must ensure that the USSR neither exaggerates nor underestimates our purpose, and we should demonstrate our openness to constructive Soviet approaches.

The scope of cooperative activities will inevitably be limited to bare necessities in the short term. We need as a first priority to right the military balance and constrain Soviet international behavior. Holding up a vision of a more stable, mutually satisfactory East-West relationship in the longer-term future also could provide the Soviets with some additional incentives for restraint and increase prospects for allied cooperation.

Visible US/Soviet contacts -- and appropriate negotiations -- can be used in seeking to sustain political support at home and in allied countries for a competitive-Western policy toward the USSR. But such contacts must not prevent us from vigorously defending our policies in public. Nor can they be allowed to divert us from necessary tough and costly measures by falsely suggesting that fundamental differences have been resolved. The Soviets can be expected to exploit such contacts and seek to convince our allies and our own public that negotiations should become a substitute for forceful political, economic and military measures. Moscow also will make major efforts to divide us from our allies on these issues. We must firmly resist these Soviet efforts.

We need to subject all proposals for negotiations to rigorous USG and allied review and ensure that our participation and negotiating strategy are consistent with clearly defined Western interests. Certain negotiating forums can be useful for either arms control or political purposes; we should know the difference. In European arms control discussions, for example, we can challenge the Soviets to accept true parity at reduced levels; in other East-West

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forums, such as CSCE, we can challenge them to honor commitments made and to build East-West relations on the basis of strict reciprocity.

We must recognize that US/Soviet bilateral diplomacy can sometimes undermine our larger purposes. In Third World crisis areas, in particular, where we aim to work closely with our friends in building barriers to Soviet influence, the Soviet Union generally will not be helpful. We should recognize the limitations -- and disadvantages -- of seeking to involve Moscow in the peaceful resolution of regional disputes and should not expand or legitimize the Soviet role. Instead, the West should exploit its singular capacity to work with the key parties to such disputes. Finally, if in the longer term the Soviet Union seeks to deal with its internal or international liabilities through genuine cooperation with the West, we should be prepared to conduct meaningful negotiations, ensuring that our overall interests are protected.

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II - The Soviet Challenge

Soviet Assets

In reaching its present position, the Soviets have made use of a series of diplomatic, ideological, paramilitary, military subversive, and to a more limited extent, economic assets. They have increased their own capabilities but have also been able to use those of others. While exploiting political opportunities in the Third World, they have also understood and capitalized on the opportunities created by division and irresolution in the West.

The Soviet Union's current advantages in its competition with the West include:

-- First, a favorable military balance.

Thanks to its steady military buildup over a period when the Western powers were largely resting on their laurels or actually disinvesting in defense, Moscow enjoys significant and growing military advantages in key regions, accompanied by a greatly improved nuclear balance, and increasingly will be able to project greater force to areas distant from the USSR. It also enjoys geo-strategic advantages from its proximity to Western Europe, Japan and the vital Persian Gulf area. Despite current and prospective increases in Western defense spending, the Soviet military edge is likely to widen in the short-term.

-- Second, growing "coercive benefit."

Moscow derives considerable "coercive benefit" from the fact that its forces have recently been used. Soviet willingness to use its forces in combat to advance its interests has probably made the Soviets at least somewhat more self-confident militarily and has almost certainly instilled greater fear in others, thereby increasing the intimidatory value of Soviet power.

-- Third, residual Western attachment to the forms of detente.

Moscow profits from the existence of widespread commitment to various manifestations of detente, especially in parts of Western Europe. This creates a receptive audience for Soviet peace initiatives and helps Moscow to mobilize pressure against Western programs that focus on the competitive essence of East-West relations instead of on cooperation. The Soviets play skillfully on such sentiments, counting on them to temper European reactions to Soviet adventures such as Afghanistan and manipulating them through "peace offensives" to forestall significant Western defense initiatives. Western programs designed to compete

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actively have to overcome the inertia of a decade, seem infeasible to many because of long lead times, are perceived as financially draining, and in any case are seen as threatening to important economic interests and ties.

-- Fourth, a network of proxies and supporters.

Moscow benefits from well-trained and disciplined proxy forces whose actions often promote Soviet interests at relatively low risk. Even when the Soviet Union provides not only strategic cover but logistic support for proxy operations, it faces a minimal risk of direct retaliation and a greater chance of evading direct responsibility for on-the-spot failures. The Soviets also derive considerable, if less dramatic, benefit from communist parties and other organizations throughout the world which can be counted on actively to support the Soviet line on appropriate occasions and to provide a base for subversive operations.

-- Fifth, ability to exploit instability.

Moscow is well-positioned to profit from recurrent instability in "Third World" countries and regions in which the West has important strategic, economic and political stakes and interests. It enjoys a basic geostrategic advantage over the West vis-a-vis Southwest Asia and the Persian Gulf, is subject to far fewer constraints in the use of covert action, and is less vulnerable to charges of neo-colonialism. In Muslim areas generally, and Southwest Asia in particular, it has sizeable cohorts of Soviet agents and advisors who are co-religionists and ethnic kinsmen of crucial native target groups and populations; (as they have found in Afghanistan, however, this can be a mixed blessing). Soviet advantages are not only geographic. New governments facing major internal opposition often lean toward the Soviet Union, which can rapidly deploy its power and resources either directly or indirectly to help in the forceful consolidation of a friendly regime.

-- Sixth, extensive mineral and other resources of interest to the West.

While other sources are available, the US and its Allies rely on several unstable Third World areas, and to a lesser extent on the USSR itself, for the supply of important minerals and raw materials. The US currently imports some special metals from the Soviet Union. Europe relies on the Soviets for a wider range of inputs. In the absence of alternative secure sources of supply, denial of the Soviet market would produce some significant dislocations in Western economies. The USSR, on the other hand, is self-sufficient in almost all strategic minerals.

-- Finally, relative freedom from domestic political constraints.

Moscow can be relatively confident -- especially given an ethos that emphasizes security above all else -- that it will not be forced to sacrifice guns for butter by debates within the elite or by a politically articulate and organized domestic opposition capable of displacing the incumbent rulers. In fact, Western defense programs are used routinely to justify the high level of Soviet arms expenditures.

Each of these assets has increased in value in the past several years, in part because of their obvious interaction. Political instability, for example, will create openings for Soviet proxy governments and movements, which are then able to exploit them against the backdrop -- and implicit protection -- of Soviet military power. Similarly, the Soviets may attempt to deflect the West from restoring a satisfactory military balance not only through blandishments and "appeals to reason," but also by military intimidation, redundant threats, and by political pressures that rest on their superior military force.

Soviet Liabilities

The foundations of Soviet power and policy as developed in the past decade are also flawed by considerable weakness. The GNP of the United States, Western Europe and Japan is more than four times greater than that of the Soviet Union. This edge is not merely quantitative but qualitative, and potentially offers the material foundation of a superior military establishment. Moreover, the economic vitality of the West -- even in the doldrums -- creates a magnetic force drawing other economies -- even those of the other side -- toward its orbit.

The effort to restore a military balance favorable to the West and to achieve our other objectives will be aided by the emergence and probable intensification of several major Soviet vulnerabilities. Together with our Allies, we will want to exploit those vulnerabilities.

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-- First, political discontinuity.

The USSR is on the verge of a wholesale leadership transition which could impede the systematic exploitation of its competitive advantages for a considerable period of time and might even eventuate in a severe political succession struggle. The outlines of such a struggle are hard to predict now, in part due to Brezhnev's reluctance to designate a successor and make other pertinent preparations. This could result in a process more chaotic than has been predicted, with some potential novel political alignments; (e.g., because of resource scarcities the military and the heavy-industrial bureaucracies, traditional allies, could work against each other). However, these problems do not preclude a still more assertive foreign policy by a new Soviet leadership team.

Even if Brezhnev leaves and the immediate transition is marked by continuity, collectivity and institutional stability, a new leader may not establish preeminence for some time. It seems likely that, following intense jockeying for power, the eventual leadership will remain preoccupied with enhancing their own authority and that of the Party, both in the USSR and in Eastern Europe; will be sensitive to any perceived probing for weakness from abroad, above all from the US; and will place domestic priority on control from above and security priority on the amassing of military power. The effects of the succession on foreign policy remain extremely difficult to predict, and not all of them are benign. A new leadership determined to protect itself internally may be prepared to take some risks externally.

Personalities of new leaders will have a significant role, but we will understand how this works only partially and in retrospect. Moreover, initial impressions may well be misleading as contenders take one line to get power and another to keep it. Whatever their long-range perspectives about the world correlation of forces, these men will be preoccupied with short-term opportunities and, more often than not, with reactive tactics. It will therefore be a mistake to judge the broad direction of Soviet foreign policy from every new speech or article by an official ideologue.

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-- Second, hostility of other major powers.

All of the major industrial powers see the USSR as the principal threat to their security. All of the other nuclear powers target the USSR. China's determination to rise to the ranks of a great power by the end of the century and the rapprochement between the West and China, if it continues, will remain very worrisome for the Soviets. Moscow could face a broad anti-Soviet political coalition emerging in the period ahead, with a more active US superpower at the lead.

.. Third, internal economic slowdown.

The USSR is entering a period of growing economic stringency which will be marked by very low (1.5-2.5% per annum) GNP growth rates. This will make it increasingly difficult for the regime to continue its lavish defense spending without mortgaging the industrial foundations of its long-term military power. Second, although not organized, it is believed that increasing consumer dissatisfaction, over food and goods shortages is of growing concern to the Soviet regime. Third, economic problems are increasing pressure to introduce reform predicated upon a decentralization in decisionmaking in the economic sphere -- a concept that is anathema to Soviet leaders. Finally, emerging domestic economic difficulties pose a threat to Soviet foreign policy by increasing the burden of subsidizing the economies of poorer allies such as Cuba and by tarnishing the image of the Soviet system as a development model for Third World countries. However, Moscow will continue to bear these costs as long as such allies continue to provide significant geopolitical advantages.

Although the economic problems described above are formidable, we must be careful not to overestimate the opportunities for the US to exploit or profit from these weaknesses. Consumer dissatisfaction may continue to be of secondary concern relative to military and foreign policy considerations. As a result of past policy decisions which kept bilateral economic relations at a low level, the US has few meaningful handles of economic leverage vis-a-vis Moscow. In addition, the West European stake in economic relations with the USSR and Eastern Europe is significant and important to the West Europeans. More seriously, economic difficulties only affect the growth of the Soviet military establishment; slow or continued but costly growth does not mean that military power will not be exercised. Nor are the Soviets likely in the next decade to be deterred for economic reasons from pursuing fundamental political objectives through the use of military power.

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Nevertheless, given the expected change in leadership and the prospect that the next generation may be less content to have external success substitute for internal progress, the Soviet leadership of the mid-to-late 1980s could be more preoccupied with internal problems.

-- Fourth, unfavorable internal trends.

The Soviet Union is composed of dozens of nationalities, many of which resent Russian domination and are potentially susceptible to the attractions of national self-assertiveness and self-determination. Demographic trends are compounding the problem, with the birth rates of non-Slavic minorities far exceeding those in the Slavic Soviet republics. A particularly serious problem could be posed by Soviet Muslims, who will soon constitute over 20% of the population (30% of draft age males). While Muslims within the Soviet Union have as yet shown little evidence of identification with the Islamic resurgence south of the Soviet border, such a development cannot be ruled out.

A separate problem is how to deal with the long-term impact of such modest liberalization as has occurred within the Soviet Union since Stalin's death. The Soviet regime has for the moment managed to clamp a firm lid on external manifestations of dissent, but it has clearly failed to eliminate it. And developments in Eastern Europe hold potential for affecting the situation within the Soviet Union over time.

-- Fifth, unfavorable trends on Soviet borders.

Developments in Poland have demonstrated the difficulties currently facing Moscow in preserving the post-World War II buffer zone in Eastern Europe. In varying degrees the trends so dramatically manifesting themselves in Poland can be found throughout Eastern Europe. And short of resort to overpowering use of force, Moscow shows no sign of knowing how to get the genie back in the bottle.

In Afghanistan, meanwhile, Soviet use of force has been unsuccessful in establishing an acceptable and enduring status quo from Moscow's perspective. The Soviets face a protracted insurrection which they cannot win without investing far greater forces -- and thereby risking domestic repercussions -- and which could become even more effective with greater foreign support.

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Finally, the US-PRC rapprochement and particularly the expansion of relations in the security sphere touches the most deep-seated Soviet fears of encirclement. The continuing expansion of Soviet military capabilities along its Chinese borders bears witness to the degree of Soviet concern.

-- Sixth, the international diffusion of power.

The increasing number of states that have greater power to assert their independence and resist external direction will, especially as Soviet interests are defined more globally, pose great problems for the Soviet Union. Moscow also faces the enduring hostility of China directly across its borders, the growing rejection of Marxism-Leninism as a model of development for Third World states, and (in those states where it has established a position of some sort) the prospect that political instability will be at Soviet expense.

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SECRETIII. National Security PolicyIntroduction

Our national security policy must rectify a deterioration across the spectrum of our defense posture towards the Soviet Union. The Soviets, through a long-term program of investment and modernization, have increased the already-substantial margin of superiority in conventional forces they possessed in the 1950's. While this shift is evident in many regional theaters, it is particularly acute in the broad Persian Gulf/Mideast region, where the loss of a key American ally, Iran, has exposed an enormous new Western vulnerability. The Soviets have at the same time built up a network of proxies and surrogates throughout the Third World to supplement their own direct force projection capabilities. These changes have taken place against the background of a continuing shift in the central strategic and theater nuclear balances, which has burdened the US option of using escalation as a means of correcting regional force deficiencies. This problem will continue until at least the mid-1980's, and may confer on the Soviets a margin of strategic superiority.

The US defense effort must be accelerated across the board, in response to the growth in Soviet military capabilities and the international instabilities which increase the likelihood they will be employed. Particular emphasis must be placed on the procurement of systems which exploit US strengths, and take advantage of Soviet vulnerabilities, including the vulnerability of Soviet proxies. The task can be divided into two areas:

-- Nuclear forces: "We must redress the current imbalance through a comprehensive modernization program designed to strengthen deterrence. This program must improve our second strike forces for destroying Soviet military assets and achieve a deterrent capability (including command and control systems) for enduring survival in a nuclear war. The Soviets must perceive, in all contingencies, the costs of initiating strategic or theater nuclear attacks as higher than the potential gains.

- a rapid deployment force capable of meeting Soviet and regional threats in the Persian Gulf;

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- the maritime superiority required to put at risk Soviet naval forces, to project forces worldwide/ and to protect our economic interests.
- creating an arms transfer mechanism to better assist US allies and friends and counter Soviet proxies.

Nuclear Force Posture

The cornerstone of our defense posture will continue to be our nuclear forces. We must rebuild a strategic and theater nuclear posture which persuades the Soviets that they would face a strong prospect of defeat if a nuclear conflict occurred. That posture should ensure that the Soviets perceive no advantage in initiating a nuclear conflict, launching a preemptive nuclear strike, nor in embarking on a course of action which runs serious risks of nuclear escalation. Our theater nuclear forces must be designed and deployed to make the risks of escalation unmistakable and to strengthen the credibility of our nuclear guarantee to respond to threats to allied security. We must not only modernize our existing theater nuclear forces in Europe but also maintain nuclear options for other high-stakes areas.

We need to be sensitive to the very real limits on our ability to use our nuclear posture as a broad and positive instrument of policy and to the dangers that we -- or, more likely, our allies -- will succumb to the temptation to view nuclear weapons as substitutes for the force improvements needed to achieve strengthened conventional capabilities. We must determine what balance to strike in particular theaters between our conventional and nuclear force postures. We also must decide whether, if regional superiority is impossible, existing Soviet advantages must be balanced by a US superiority in pertinent nuclear forces. We also need to be careful that our recognition of the extended requirements which US nuclear forces must satisfy not be mistaken for any eagerness to provoke a nuclear conflict nor to encourage escalation.

Our nuclear force improvements cannot be based on a false doctrinal dichotomy between deterrence and defense. The deterrent value of our nuclear forces derives from their operational capabilities, not from their simple existence. Their effectiveness in discouraging

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Soviet adventurism -- whether spawned by opportunism or desperation -- depends on their ability to defeat a Soviet attack or otherwise deny the Soviets their objectives, and limit damage to the American homeland.

Our nuclear force improvements should be measured not simply by static quantitative measures, but by qualitative advances that have a practical military significance as well. We need to give special attention to the survivability and endurance of the NCA and C3I even as we improve those qualities of the nuclear systems themselves; to procure forces and design employment options that directly support political objectives and facilitate conflict termination on terms favorable to the US and its allies; to take strategic defense seriously; and to improve the survivability of our space assets. We also must maintain a survivable land-based missile force. Moreover, by increasing the accuracy of our missiles, we can exploit an American technological advantage and render more vulnerable the large Soviet investment in fixed land-based ICBMs. Finally, consideration of effective anti-ballistic missile systems also should be considered.

Conventional Force Posture

US conventional forces are presently insufficient to meet all of our security needs. Even without the fall of the Shah and the present turmoil in the Persian Gulf, we would have had to take measures to substantially modernize and expand our capabilities in regional theaters like Europe and Asia in the face of Moscow's steady buildup and our loss of a counterbalancing margin of strategic superiority. Unfortunately, we face the additional requirement of creating a capability to intervene in the Gulf to preserve Western access to oil against Soviet or regional threats. Our vulnerability in the Gulf, moreover, must be corrected with particular urgency, since the instability that invites Soviet interference exists now (as in Iran) and could lead to a major crisis in the immediate future. While we currently have no alternative but to divert and designate forces normally assigned to other theaters to cover the Persian Gulf, over the long run we must expand our force structure to deal with this specific contingency. We cannot meet this new threat simply by reshuffling our already-insufficient forces and exposing even greater vulnerabilities in Europe and Asia, particularly since the Soviet Union has the power to pressure us on several fronts simultaneously.

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Our conventional force requirements are large. In Europe and Asia, we must be prepared to meet a massive short-warning attack and to wage, if necessary, a more protracted conflict. We can partially offset the sheer weight of Soviet land power by the intelligent exploitation of Soviet weaknesses. For example, the USSR is geographically large and yet has limited access to warm waters; SLCM deployments can force the Soviets to invest in costly air defenses and will render much of their fleet vulnerable. Such deployments would, of course, have to be pursued with due regard for any potential political impact on the LRTNF decision. (Other measures are suggested in Sections IV and V.) In the Gulf, we cannot expect to match the Russians in the event of an all-out, determined Soviet invasion, but we can hope to raise the costs and risks sufficiently so as to deter the Soviets, and to deal with less demanding but more likely regional threats. We must seek to regain clear-cut maritime superiority, both in terms of ships and shore-based air power. This is a necessity imposed on us by the fact that we, unlike the Soviets, are dependent on sea lines of communications to meet our Alliance commitments as well as our economic and security needs.

Finally, our Third World policy to counter Soviet proxies requires improvements in the arms transfer process. The Soviet Union presently has a significant advantage over the US insofar as it can supply its clients with large quantities of arms rapidly out of present inventories. While top of the line US weapons are generally more technologically sophisticated than comparable Soviet designs, Soviet weapons are often better suited to the skill levels of Third World countries. The US needs to reduce order lead-times and costs for commonly-used items like tanks, APCs, and combat aircraft, where feasible through the establishment of a funded contingency pool. We also need more flexibility in the terms we can offer, particularly to financially hard-pressed states. For some countries, a return to modest grant aid programs will be the only feasible solution. Meanwhile, our security assistance representatives abroad should be given greater latitude to engage in planning discussions with their hosts.

Arms Control

The United States should pursue a realistic arms control policy, whose purpose is directly to enhance US national security

through a strengthened balance of power and balanced, verifiable agreements, facilitating our force modernization plans. While in some circumstances these goals may be achieved through reduction in overall levels of armaments, we should not seek disarmament or restrictions on new technologies for their own sake in the unrealistic hope that such measures per se will lead to a more peaceful world. We need to recognize that many force modernization measures and technological advances actually could contribute to the goal of arms control, i.e., stability. Nor should arms control be pursued for the sake of purely psychological improvements in relations between the US and the USSR, or in the vague hope that an admittedly limited agreement now will set in train a process that will lead to larger and more substantive agreements later. Indeed, agreements negotiated simply to improve the atmosphere of super-power relations but which do not affect the actual course of Soviet weapons development and deployment can be more harmful than none at all, insofar as they create the mistaken impression that US national security has been enhanced, or that Soviet intentions are as a consequence more benign.

Instead, we need to set a tougher substantive standard for what we expect out of arms control agreements, and be prepared to accept no agreements at all if these standards are not met. The standards should be premised on: (1) having arms control support, rather than drive, U.S. military programs, and (2) insuring that agreements are genuinely stabilizing, militarily significant, equitable and verifiable.

This will inevitably be a long process, and US leaders should anticipate -- and prepare the American public to accept -- the need for considerable patience. The US needs to establish firmly the primacy of unilateral military programs as the basis for ensuring national security, and to impress on the Soviets that we intend to deal with them from a strong position. Moreover, we will require time both to conduct a thorough analysis of our security needs and to determine specifically where arms control might be helpful. In any event, negotiations are unlikely to result in significant progress at least until we are clearly on the road to redressing current military imbalances.

We will insist that arms control agreements be equitable and verifiable. We will require precision in treaty provisions.

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When agreements are in force, we must insist upon strict Soviet compliance and, if not satisfied with Soviet compliance with agreements, we must be prepared to withdraw from the agreements. An active approach to compliance matters would have intrinsic security value.

We will face pressure from our Allies and other countries ready to resume the arms control process well before we are prepared to engage in substantive negotiations. Our Allies recognize that the Administration will need time to formulate long-term security policy, but some face strong arms control constituencies at home and are concerned that the necessary political base for European defense modernization will be undermined unless a visible arms control process is resumed fairly promptly.

We need to pursue an arms control strategy that will meet these Allied concerns while at the same time preserving US flexibility for future negotiations. Elements of such a strategy would be close and visible consultations with the Allies and a declaratory policy that makes clear our commitment both to the general goals and to a well-designed process of arms control. But our strategy should seek to counter Soviet arms control propaganda, and to make clear the importance we attach to compliance with existing arms control agreements. Both in public and in multilatera fora we should expose the hollowness of the Soviets' arms control initiatives and put them on the defensive, particularly on key issues such as their unwillingness to consider adequate verification measures. Also, we must begin, both in public statements and private consultations, to lower expectations -- at home and in Western Europe -- over what arms control can accomplish.

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We will need to reinforce our [declaratory] commitment to an arms control process by participating where appropriate in negotiations with Moscow. The US decision to start LRTNF negotiations by the end of this year is a specific example of this approach. But we should prevent the December 1979 LRTNF decision -- coupling force modernization with arms control -- from becoming a model for future arms decisions.

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Faced with Soviet determination to continue its military buildup and in light of recent Soviet international behavior, we might well question whether the West's trade and economic policies during the decade of detente did not contribute more to Soviet power than to the long range restrictions on its power that the detente philosophy seemed to promise. In the present context of U.S.-Soviet competition, we must refashion East-West economic relations to make them consistent with broad US political-military objectives.

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Strains in the Soviet Economy

In one sense, our national power is a function of the wealth of resources at US command (military, economic, cultural), relative to the resources belonging to or utilized by the USSR, its allies and proxies. On the economic side, there is sufficient evidence to permit the observance that the Soviet economy faces serious strains in the decade ahead. Substantial decline in growth will undercut pursuit of Moscow's objectives to (a) maintain its military edge, (b) expand the industrial base, and (c) respond to consumer expectations for improved living conditions and welfare.

The major factors tending to slow down the rate of growth in the Soviet economy are:

- The drying up of sources of labor force growth;
- A slowdown in the growth of capital productivity;
- An inefficient and undependable agriculture;
- Energy constraints. The proposition that the Soviet Union faces a potential oil problem is widely accepted even in the USSR. Among US experts, there is disagreement over when the shortage might occur and how large it will be. Even if we accept the CIA's worst case scenario for oil production (production already peaked and declining within 1-3 years) the USSR's total primary energy output will continue to grow though at only half the Soviet planned rate of 3-4 percent. The shortfall, together with declining increments to the labor force and strained investment resources will lower overall Soviet economic growth and inhibit improvements in consumer welfare, but is not likely to cause a recession-type slump. In Eastern Europe the effects may be more severe than in the USSR given the constraints on the different national capabilities to pay higher energy bills.

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There are differing opinions of Soviet prospects for finding more oil, but none are too promising. Moreover, the most favorable areas are in Siberia and the Far East, where infrastructure is lacking and where the costs of development (including transport) will be much higher. Even if exploration is successful, it is doubtful that new discoveries in these areas could be developed fast enough to alter the production outlook over the decade unless the Soviets receive the substantial help they are seeking from the West.

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New discoveries would affect the Soviets' perception of whether they will face a temporary oil problem that can be overcome or whether they will have to cope with a long and continuous downward trend. While it is not in the Western security interest to have the Soviets competing for world energy resources, neither is it in the interest of the West to facilitate Soviet access to technology which would give them an independent capability to improve oil and gas output and infrastructure. We should approve exports of oil and gas end-use equipment after review on a case by case basis.

Correlation of Forces

The Soviets frequently use the term correlation of forces and it is important that we understand their view of the term as a summation of all aspects of relative international power--particularly the relationship between Soviet power and the countervailing forces led by the U.S.

Largely because of the dramatic shift in the military balance which took place in the 1970's, the Soviet leadership seems to act on the belief that a global shift is underway in the correlation of forces and that this shift is or can be made to favor the Soviet camp.

It is clearly in the interests of the U.S. to demonstrate (a) that the correlation of forces is not in favor of the USSR, and (b) that despite imports of technology, manufactured products, and grain, continued high levels of defense spending will exact growing punishment on a Soviet economy whose growth trends point downward.

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While it is not in the Western interest for the Soviets to use force in competing for world energy resources, neither is it in the interest of the West to facilitate the rapid expansion of Soviet energy production, subsidize the Soviet energy development program or assist the Soviets in developing export markets for energy products such as oil, refined oil products, or natural gas.

Correlation of Forces

In light of the factors regarding growth and dynamism in the Soviet economy, U.S. and Allied economic policy can likely influence the rate of growth in key Soviet economic sectors as well as the USSR's ability to support both specific military and civilian industrial and technological advances without incurring additional costs and forcing hard allocations of resources.

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It is clearly in the interests of the U.S. to demonstrate that the correlation of forces is not in favor of the USSR; that the Soviet economy has been artificially bouyed up over the past decade by high levels of imports and technology, manufactured products, and grain, and that continued high levels of defense spending will exact growing punishment on a Soviet economy whose growth trends point downward.

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Defense Spending

Under current circumstances, for the Soviets to sustain defense spending in the range of 13-15 percent or more of GNP is producing strains on the economy. The military is already getting a very large share of the GNP pie, and its share is likely to be maintained despite the projected economic difficulties. The Soviets are ready to pay the price. We should not make it easy for the Soviets to expand their military. We are entering a decade in which the Soviets are closer to exploitable military superiority than they have ever been and we must ensure that Western exports to them do not contribute to that trend.

Allied Economic Objectives

Soviet militancy creates a need and Soviet economic difficulties provide an opportunity for the Western allies to further their objectives by pursuing a more coordinated and competitive economic policy toward the Soviet Union across a range of issues.

Economic relations with the Soviet Union and Eastern European countries should be consistent with the broad political-security objectives of the US and its allies. These objectives are:

- to strengthen defenses in order to deal with the reality of Soviet military power;
- to diminish Soviet ability to wage a successful war and to counter the projection of Soviet power both direct and indirect elsewhere in the world;
- to reduce opportunities for Soviet economic or psychological leverage over the West;
- to use carrots and sticks in linking Western economic relations with Moscow to specific improvements in Soviet behavior in the Third world;
- to block Soviet efforts to split the allies.

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Soviet defense spending exerts strains on the total economy which can be sharpened if the West enforces tough constraints on trade, credits, and technology (know how) and equipment.

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As the Western nations seek to deter aggressive Soviet actions in Poland and elsewhere in the short-term and to redress the military balance with the Soviet Union over the near term (3 or 4 years), they must explicitly recognize the relationship between these objectives and the conduct of economic relations with the Soviet Union and Eastern Europe. These economic relations may enhance Soviet military capabilities directly, transfer technology not otherwise available which makes a significant contribution to military capabilities indirectly, and contribute more broadly to Soviet ability to support military programs at levels that Western countries with different domestic constraints find it increasingly difficult to match. Certain economic relations with the East may lead to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union.

Given these considerations, the US and its allies must pursue disciplined, consistent and where possible coordinated policies toward economic relations with the Soviet Union and the Eastern European countries. These policies should take account of the different political-security conditions which prevail today and which might influence the future course of Soviet policy in Europe and around the world.

Assuming that the Soviet-American relationship will be predominantly competitive for the foreseeable future, the U.S. must take independent action where needed and strongly lead the allies toward the following goals:

-- tighten strategic controls, and improve their enforcement, consistency, and predictability of administration;

-- work to insure that tightened controls prevent the transfer of critical military technologies;

-- protect national security interests by appropriately controlling East-West trade;

-- improve the Cocom process by assuring that views of defense ministries of participating countries are properly represented in the Cocom review process;

-- recognize that foreign policy controls are a vital aspect of contingency planning and impose these controls primarily in crises, in support of agreed objectives with agreed conditions for lifting them later (otherwise avoid imposing such controls); furthermore, to be effective, foreign policy controls must generally be coordinated and imposed multilaterally;

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-- tighten strategic controls, and improve their enforcement, consistency, and predictability of administration;

-- work to insure that tightened controls prevent the transfer of critical military technologies;

-- recognize the national security interests that need to be protected by controlling East-West trade;

-- improve the COCOM process by assuring that defense interests are properly represented in the COCOM review process;

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-- to identify specific existing dependencies on Eastern resources and markets and to take action to eliminate the vulnerabilities attendant to these dependencies; and to develop collective measures to guard against any new vulnerabilities;

-- insure that East-West economic relations are guided by the basic assumptions of the competitive nature of US-Soviet relations. We have nothing to gain from a situation of co-existing policies of political-military competition and economic detente.

The objective of restructuring East-West economic relations along these lines can be achieved only with a subtle, deliberate approach that takes into account allied views, fears, and vulnerabilities. Our allies have encouraged trade with the East for both economic and political reasons, frequently viewing it as a long range means to better East-West trade relations. The Soviet Union continues to be viewed as a natural market for their industrial products, especially capital equipment, and as an important source of energy and other raw materials. The current economic slow-down affecting all of Western Europe and pressures on the Japanese to curb exports to OECD countries enhances the attractiveness of the Soviet market and feeds domestic pressures to resist any cut-backs in exports to the USSR. The allies' overwhelming dependence on imported energy and raw materials generally cause them to view any diversification as beneficial to their economic security, even if this means increasing imports from the Soviets. Finally, the Soviets will try to exploit differences between the United States and Europe on economic issues.)

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We recognize these potential problems and the need for an evolutionary strategy which must be managed in such a way as to avoid serious allied discord. But we are convinced that the nature of the Soviet threat requires improved allied efforts to reduce Soviet access to militarily relevant products and technologies as well as subsidized credits. We should use the Ottawa Summit to accord a political impulse to these policies.

Strategic Controls

The Western allies have administered controls on trade in strategic goods and technology with the Soviet Union and Eastern Europe for more than 30 years through the Coordinating Committee (COCOM). Despite its informal nature, COCOM has slowed the transfer of militarily significant goods and technology to the East. The West has protected lead-time over the Communist countries in the development and

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application of militarily significant technologies and has added to the costs of Soviet developments in the military sector.

After the Soviet invasion of Afghanistan, the COCOM partners discussed a range of issues involving stricter controls on the export of strategic goods and technology to the Soviet Union and have in practice not sought exceptions in COCOM to sell embargoed goods to the Soviet Union. The "no exception" policy should be continued on a permanent basis, at least during the near term period in which the West seeks to overcome Soviet military advantages. There is a clear need to improve our controls over advanced goods and technology of military significance as well as enhance our enforcement capabilities to deter industrial espionage and diversion. In addition, COCOM controls on manufacturing technology and software are somewhat ambiguous and there is little coverage in such important defense priority support industries as metallurgy, chemicals, heavy vehicular transport, and shipbuilding. The US and its allies should move rapidly to develop realistic controls in these areas.

The question of how to handle East-West trade, technology transfers, credit policy, and economic boycotts has at times been divisive between the United States on the one side and Europe and Japan on the other. Yet apart from Polish contingency planning, there has been insufficient progress toward working out agreed Western positions and further high level attention is needed. Discussions should go forward in COCOM and perhaps in meetings of a revitalized Consultative Group. But the US and its allies may wish to consider whether the West needs to create a new forum to conduct periodical high-level policy discussions called for by the dynamic and complex issues of East-West economic relations such as:

-- new scientific/technical developments. Are there end uses, especially military applications, which are not immediately apparent to the developer;

-- availability. Are comparable technologies available from more than one source;

-- intelligence. Wider and timely sharing of intelligence information of COCOM regulations and on Soviet technological capacities and military needs;

-- commercial espionage. How to restrict Soviet acquisition of technology through other channels;

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The question of how to control East-West trade, technology transfers, credit policy, and economic boycotts has at times been divisive between the United States on one side, and Europe and Japan on the other. Yet apart from Polish contingency planning, there has been a striking absence of serious discussion of these issues at the highest political levels. These discussions should go forward in COCOM and perhaps in meetings of a revitalized Consultative Group. But the US and its allies may wish to consider whether the West needs to create a new forum to conduct periodical high-level policy discussions called for by the dynamic and complex issues of East-West economic relations such as:

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-- enforcement practices among the varying national authorities which control strategic exports.

Foreign Policy Contingency Controls

Foreign policy, trade, and other economic controls have been less systematically discussed and dealt with among the Western allies than security controls. Perspectives diverge on the necessity and effectiveness of such controls, the objectives to be served by such controls, and the timing and nuance of such controls when used as foreign policy signals to adversaries.

The Soviet invasion of Afghanistan and the threatened intervention in Poland have contributed to a more intensive discussion of foreign policy controls on exports to the Soviet Union. What is clear from past experience is that such controls would be more effective, if they are implemented collectively and that the Allies have been able to agree on the need for such controls much more readily in the context of contingency planning for crisis than in the aftermath of crisis.

Economic Security

This Administration is not unmindful that East-West trade is viewed differently on the two sides of the Atlantic and that the share of Eastern trade as a percentage of GNP is many times higher in Western Europe than in the United States. Western Europe has longstanding trade and cultural links with Eastern Europe. For Europe, this trade is an important source of domestic employment and industrial revenues. These differences cannot be ignored, anymore than the obligation they impose to ensure that there is broad confidence and clarity among the Allies concerning the levels and terms of trade in their respective economic relations with the East.

Looking beyond unilateral US actions, the broader Allied consideration in economic relations with the East is less restriction of trade and financial flows than actions to shape and limit the negative consequences of such trade. For example, it is not in the interests of the West for the Soviet Union and Eastern European countries to acquire a degree of leverage over Western countries that permits direct political influence over the policies of Western countries or that sharply reduces the options of Western countries in dealing with Eastern countries. This is a different concern from that which seeks to deny Western manufactured goods

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or technologies to the Soviet Union and Eastern European countries. The economic security aspect deals with Soviet, and possibly Eastern European, economic influence over the West. This influence derives in the first instance from the level of dependence of the West on Eastern resources or markets. In purely economic terms, such dependence can be reciprocal: A supplier can be beholden to the customer as much or more than the reverse. But in the current East-West situation where political - security interests diverge, it would be unwise to rely on the mutually beneficial economic consequences of trade and financial relations to preserve these relations under all circumstances. Parties will be constantly searching for unilateral advantage. If cutting off supplies (or markets) should at any time seem likely to result in greater disadvantage to one party than the other, some incentive and opportunity to exercise leverage could emerge.

The potential for influence thus ultimately derives from vulnerability not dependency. Vulnerability results from failing to review continuously among the Western Allies the advantages and disadvantages of various economic relationships and failing to consider protection against efforts by the other party to manipulate these advantages and disadvantages. In their economic relations with the East, the Western countries will have to worry less about the levels of trade and financial relations the more they consider means to protect against the vulnerability which derives from these levels. An essential means of preserving gains in economic relations with the East is for the Allies to enter into discussions to deal with vulnerability. Unless this is done, the levels of dependence themselves will become matters of controversy and act to undermine confidence among the Western Allies in their respective economic relations in the East.

The US and its Allies need to adopt a sense of economic security in their relations with Eastern Europe and the USSR. In the current East-West context this would require us to prepare for short-term supply disruptions of Eastern resources and where feasible to develop long-term alternatives. In addition, economic security implies that the West consider alternative markets if realities should warrant cutting off all exports to the Soviet Union or Eastern Europe. It also implies, incidentally, maintaining open markets within the Free World's market system to reduce pressures to expand trade with the East. Contingency planning is also needed for possible disruption of international financial markets resulting from Eastern debt problems.

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Economic Competition

In the context of US-Soviet relations, "competition" should be read as a shorthand expression designating a state of rivalry between the two parties. Economic competition is only one, albeit a major, element in the larger process of US-Soviet rivalry.

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Not everyone will be happy with the idea of the US and Allied governments taking a more activist role in refashioning East-West trade to accord with the current state of political and military competition.

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Not everyone will be happy with the idea of the US and Allied governments taking a more activist role in refashioning East-West trade to accord with the current state of political and military competition. But such are the realities of politics that government inaction could well have a more chilling effect on the long term trade outlook because of the highly destabilizing effect which a further US-Soviet military imbalance could have on the whole infrastructure of world trade.

There is a large area of East-West trade opportunity outside the range of strategic export controls where businesses should be able to operate with minimal government controls apart from the overall concerns about levels and terms of trade. In these areas the US should take a "watching brief" with the clear understanding that private firms will drive hard bargains; maximize the benefits to the US and minimize the benefits to the USSR.

The private sector must turn to its advantage the element of US-Soviet rivalry in economic competition. For those products and areas of know-how where the US has a clear lead in technical innovation, quality, or availability; there should be no sale except on terms firmly in our favor. In industrial sectors where the US is the only supplier, our policy should be to trade only when it serves our interests.

Forging New Allied Political Consensus

As the United States adopts a new approach to East-West relations, it must attempt to forge a new consensus within the Atlantic alliance in support of its policies. This attempt will be made against the background of the following trends:

-- The growth of Soviet power at all levels in Europe, increasing the traditional Soviet advantage in conventional forces, and erasing earlier US advantages in nuclear forces.

-- Allied doubts about the constancy of US leadership and the reliability of the US security guarantee.

-- Acute and growing allied dependence on the petroleum of the Middle East and on other strategic resources.

-- Extensive Western European economic engagement with the USSR and Eastern Europe, which have supported this trade by massive borrowing from the West.

-- Fear that post-war economic prosperity is endangered.

-- Political instability, in which the ruling governments often are weak and divided coalitions.

-- Increasing pacifist sentiments in some countries.

At their worst, these trends have robbed some European countries of their stomach for competition with Moscow, with a resultant growth of saue qui peut policies and a weakening of the Atlantic alliance. More generally, allied governments regard these trends as imposing major constraints on their freedom of action, which can only be recovered over time.

These constraints will continue to hamper Western policies even in cases where our allies desire a change in direction. Recent years have brought a growing (albeit grudging) European appreciation that hopes for detente remain unrealized. Afghanistan was a shock for many but policy still has not yet caught up with reality in most European capitals. Many allied officials continue to feel that they must pursue a "divisible detente," thereby seeking to decouple European security from Soviet activities outside the NATO treaty area. We are not dealing with "Finlandization" and Western Europe is not slipping toward the Soviet orbit. Rather, Europeans are exhibiting

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a tendency to track with prevailing winds. For the foreseeable future those winds may retain a stronger influence on European than American policy.

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"We must recognize that it often will be difficult to generate adequate support from our allies and friends, in Europe and Asia, for our policies toward the Soviet Union. This will require some adjustment in US positions and an occasional need for unilateral US action in pursuit of particularly important interests. A Standing Interagency Group is hereby established to ensure proper implementation of the decisions flowing from the East-West study. In addition, an Interagency Group is established and commissioned to conduct a study on major alliance relationships. This study should develop a detailed strategy and tactics for dealing with our allies and friends in the pursuit of major US political, economic and military objectives."

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While taking account of the importance of leaders, we should convey clearly that we expect them to move toward reducing the political constraints on their defense actions and to join us in the measures necessary to counter the Soviet challenge. Our success will in large measure be a function of how effectively we can convey to them and to their publics the impression that we know where we are going, that we know how to get there, and that our policies take into account and serve their interests. If we lay the groundwork properly, and persist in leading the allies toward a firmer posture toward Moscow, there is clear potential for reinvigorating allied resolve and solidarity.

US policy will pursue both short and long-term goals. In the short-term, we need to do some important damage-limiting; several goals are so pressing as to permit no delays. The U.S. must seek to prevent short-term adverse political effects arising from the military imbalance in Europe, from the dependence of our allies on Middle Eastern oil and other natural resources, and from the significant Western European stake in East-West economic relations. The alliance's commitment of resources to a military effort probably will not be increased as rapidly as we desire or as much as that of the United States; but we must begin to turn the process around. Similarly, precisely because the scale of East-West economic contacts cannot quickly be reduced, U.S. policy will place a high premium on coordination among Western governments to avoid major new dependence and to limit the potential damage to be done by disruptions of those contacts.

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There already has been an initial positive response in some European countries to new Administration leadership and some movement toward a more realistic view of the Soviet Union. Moreover, Soviet intervention in Poland probably would -- at least initially -- tend to unite the allies politically against Moscow. These are only tentative moves, however, and much remains to be done to reshape European public attitudes and government policies.

While U.S. policy may be able to limit the potential damage of military inadequacy and economic dependence in the short-term, there is no satisfactory long-term alternative to reversing each of these trends. Therefore, the US will pursue the following longer-term goals.

First, to increase the commitment of resources by our allies to the common defense. The military efforts of our NATO allies already represent the most significant contribution to U.S. security of any American alliance relationship, and it must be a major objective of U.S. policy to assure that the benefits derived from this strategic cooperation are in no way reduced. In light of the urgency of meeting the Soviet challenge, West-West differences must not be allowed to undercut Allied cooperation on East-West issues. Indeed, if there are hard times ahead with Moscow they must benefit, not harm, the Alliance.

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Second, to take collective action to prevent West European economic dependence on the Soviet bloc and to reinforce Western ties. Particular sectors of strategic importance deserve special attention. Meanwhile, Western European countries have a substantial interest in East European markets and this can be exploited to enhance East European autonomy and domestic liberalization.

Third, to increase energy security. Since 1973 Western European governments have pursued policies of reinsurance

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Second, to arrest growing West European economic dependence on the Soviet bloc, to take collective action to prevent the emergence of future vulnerabilities and to reinforce Western ties. Like the defense programs of NATO, the commercial patterns built up over the last decade will change only slowly. Moreover, Western European countries have a substantial interest in East European markets and this can be exploited to enhance East European autonomy and domestic liberalization. The U.S. understands this and will not seek a wholesale cutback of existing East-West economic relations. Yet the current level of Western vulnerability already is too high in some key sectors and it is not enough to slow or even stop the growth of such dependence. U.S. policy must seek as a long-term goal real reductions in the vulnerabilities of the Western economies to the East. Particular sectors are of strategic importance and deserve special attention.

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with the Arabs and other non-aligned countries to protect the resources base of their resource-vulnerable economies. Given the political instability of many oil-producing states; this policy can never be a secure basis for assuring energy supplies. Still less is increased energy dependence on the Soviet Union an adequate response. Rather, it must be made clear that the key to reducing this vulnerability lies in coordinated Western defense and energy policies, including the increase of reserve stocks.

Policies

The following lines of policy will give substance to the goals outlined above.

a - Defense

In restoring a military balance, we need to convince the Europeans, fearful of a new cold war and beset by economic pressures, that security and stability require stronger Alliance defense.

-- NATO's broad aim must be a posture which can credibly prevent the Soviet occupation of Europe in the event of war. This requires a single, balanced, linked continuum of conventional, theatre-nuclear and strategic forces that will ensure stable deterrence and maintain allied confidence in the commitment of U.S. nuclear forces. We should indicate what we intend to do toward that end and explain what we expect from them.

-- We must recognize that only the U.S. can provide the leadership and nuclear sinew for such an alliance defense. Proposals for "devolution" to a new European defense community and for European nuclear cooperation are both illusory. Europe lacks the political will and cohesion to organize itself for an independent conventional defense, or to undertake serious nuclear cooperation. At the same time the U.S. must, by appropriate technology transfers, help maintain independent allied nuclear forces at cost levels. That will permit increased efforts in other areas.

-- We must implement NATO's decision of December 1979 to deploy 572 GLCMs and Pershing II-XRs, as part of the LRTNF modernization/arms control package, while recognizing that

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this program will not by itself restore an acceptable balance. In time we may wish to enrich our modernization plans in order to respond to Soviet theater nuclear deployments, as well as Soviet battlefield nuclear programs. Premature initiatives in this area, however, could undermine the basis for the current deployment program.

-- The U.S. should pursue, for our own needs, a separate SLCM program and consider ALCM employment in a theater role. We would make clear to our NATO allies that these are in no way meant as substitutes for GLCM and PII deployments in Europe.

-- We must bolster conventional forces by sustaining NATO's Long-Term Defense Program now in its second phase, and by promoting more ambitious alliance force goals. In such an effort, the LTDP's 3% real budgetary growth must be treated as a minimum commitment; a restored balance will be made possible in this decade only by a faster pace that comes closer to matching the U.S. example. The alliance must assign high priority to improving the armor balance of the Central Front, C³, airlift/sealift; to exploiting advanced conventional munitions for lucrative strike roles; to acquiring the ability to conduct chemical warfare in response to Soviet initiation; and to readiness, reinforcement, reserve mobilization, air defense and logistics. For our part, following up the dedication of new U.S. force commitments under Allied Command Europe, the U.S. will strengthen further its defense capabilities in Europe. This will be useful for NATO reinforcement and other contingency purposes.

-- Because NATO must sustain force levels that allow continued operation in wartime in the Eastern Mediterranean, the strengthening of the alliance's southern flank is an urgent matter.

-- More generally, we will have to seek a redefinition of the "division of labor" concept, so that our Allies not only pick up any slack in defense in Europe resulting from U.S. efforts in Southwest Asia, but also contribute as appropriate to defense in Southwest Asia by providing economic and military assistance, enroute access for forces deploying to SWA, and -- as feasible -- forces for Southwest Asian defense. The U.S. will discuss coordinated

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planning and operations in this area with appropriate allies once our internal thinking is sufficiently developed.

b-- Arms Control

There is little prospect for agreements that serve our interests in MBFR or on TNF. Barring the shock effect of Soviet intervention in Poland, however, a visible arms control process is a precondition for allied cooperation in the NATO LTDP and on LRTNF modernization. We should use that process to seek agreements based on parity, arms reduction and balanced verifiable arms control, while placing the burden on the Soviet Union for resisting effective arms control. "We should use that process to seek agreements based on parity, arms reduction and balanced verifiable arms control, while placing the burden on the Soviet Union for resisting effective arms control."

Otherwise, we must continue to insist on Soviet opposition. and negotiation, while bringing the allies to understand that their need for an arms control process must not interfere with our common need for NATO rearmament and for effective actions on the East-West agenda.

-- For as long as we continue to participate in the MBFR process, we must ensure that our bargaining positions no longer reflect the more pessimistic and defensive expectation for the European balance of the last Administration. We must not seek compromise solutions with Moscow at Allied expense. Genuine parity, collectivity and verifiability must be the essential criteria for the US and Western positions.

-- If the Soviets accept the Western criteria for CDE, we should be prepared to engage in such a process, perhaps starting next spring. CDE should deal exclusively with CBMs in an all-European context.

-- Continue a deliberate track on LRTNF arms control, while keeping allied feet to the fire on modernization and deployment. The U.S. must make clear that a successful outcome will not necessarily be achievable before military programs to restore a European balance begin to take effect.

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c - Economic

In developing a common policy with our allies toward East-West economic issues, the U.S. will formulate approaches that limit Western vulnerability.

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b - Arms Control

There is little prospect for agreements that serve our interests in MBFR or on TNF. Barring the shock effect of Soviet intervention in Poland, however, a visible arms control process is a precondition for allied cooperation in the NATO LTDP and on LRTNF modernization. We should use that process to demonstrate Soviet opposition to parity, arms reduction and effective verifiable arms control. Should the Soviets invade Poland, we should suspend indefinitely MBFR, CSCE and LRTNF, and oppose any CDE. Otherwise, we should accept the alliance posture of defense and negotiation, while bringing the allies to understand that their need for an arms control process must not interfere with our common need for NATO rearmament and for effective actions on the East-West agenda.

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c - Economic

In developing a common policy with our allies toward East-West economic issues, the U.S. will formulate approaches that both cap Western vulnerability at current levels and create a basis for reducing it in future.

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-- It is not in the interest of the West to facilitate Soviet access to technology which would give them an independent capability to improve oil and gas output and infrastructure, although we should approve exports of oil and gas end-use equipment after review on a case by case basis. The proposed European-Soviet gas pipeline is not in our interest and must be handled to prevent Western vulnerability. We must put major pressure on the Europeans to minimize its strategic implications. Successful U.S. insistence that the construction of the pipeline be financed at non-concessionary rates could by itself produce a cutback in construction plans. The still high dependence that would be created can be met by agreement to the establishment of adequate alternative supplies and storage facilities. In pursuing these goals, we should avoid confrontational tactics, which could create a major political row akin to the Carter-Schmidt battle over the Brazilian nuclear deal.

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-- The U.S. must seek to limit the subsidizing effects of Western competition for Eastern contracts, primarily by pursuing common export credit policies.

-- To demonstrate that economic relations cannot be unconditional, we must seek to preserve sanctions following the lifting of the partial grain embargo. To demonstrate that trade cannot be the means for the transfer of high technology, we must expand the coverage and effectiveness of COCOM rules, and secure firm member government commitments to police violations.

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-- The issues before us are difficult and symptomatic of the already great exposure to the East. The proposed European-Soviet gas pipeline is not in our interest and should be handled to prevent the emergence of further European vulnerability. If we decide we cannot block it altogether, we should try to delay it as long as possible, and seek to reduce the scale of the project and thereby of the dependence to be created. Successful U.S. insistence that the construction of the pipeline be financed at non-concessionary rates would by itself produce a cutback in construction plans. The still high dependence that would be created can be met by agreement to the establishment of adequate alternative supplies and storage facilities. In pursuing these goals, we should avoid confrontational tactics, which could create a major political row akin to the Carter-Schmidt battle over the Brazilian nuclear deal.

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-- The U.S. must seek to limit the demaging effects of Western competition for Eastern contracts. We must pursue OECD agreement on common export credit policies, based on a commitment that the provision of credit for all non-food stuff exports be at prevailing international rates, and on prevailing market terms and conditions. If the economic crisis of the Soviet Union does in fact increase dependence on the West in the years ahead, it is essential that East-West economic relations be negotiated on a basis that reflects the true extent of Soviet need and does not merely free Soviet resources for use against the West.

-- Where we cannot reduce the scale of East-West economic contacts, we must assert and increase governmental control where needed. To demonstrate that economic relations cannot be unconditional, we must seek to preserve sanctions following the partial lifting of the grain embargo. To demonstrate that trade cannot be the means for the transfer of high technology, we must expand the coverage and effectiveness of COCOM rules, and secure firm member government commitments to police violations.

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d - Political Consultations

-- We need to do better with both our larger allies who want more recognition and our smaller allies whose efforts will flag if they are taken for granted. Besides the principal NATO consultative forum, we should:

(1) pursue de facto quadripartite consultations with Bonn, London and Paris (depending on developments in Mitterand's France) but deflect any proposals for a de jure directorate; (2) consult regularly through the EC-10 presidency; and (3) intensify bilateral consultations with smaller allies to ensure their commitment to the Alliance.

-- Our most important task is to improve political consultations involving third areas beyond the European theater. To this end we should intensify political exchanges among the "Summit 7" and their representatives between summits, and invite directly concerned "swing" participants. In addition we should consider the use of ad hoc consultative committees on special areas, such as the Persian Gulf, along the lines of the report of the four Atlantic foreign policy associations. Finally, we might aim at a special NATO summit next spring in California -- the 35th anniversary of the Marshall Plan speech, to review progress in efforts to revitalize the Alliance.

e - Global Strategy

Western Europe should play a crucial role in our broader global strategy, which should center on a coalition of differentiated but interlocking diplomatic arrangements with Europe, Japan and China, and a number of multiple-bilateral partnerships with key "Third World" countries. In tandem with a strong US politico-military posture, this essential core of associates would provide the basis for countering the Soviet challenge in the Third World. It should include cooperation in the Persian Gulf and other crisis areas, intelligence sharing, at least rough coordination on aid and security assistance programs, and planning to counter Soviet proxies and to undercut vulnerable Soviet allies and surrogates. Our approach should be a pragmatic one, with a "multiple-bilateral" focus.

f - Political Ideology

-- We must strengthen our efforts to sell US political and defense policies to European public and parliamentary opinion. This is necessary both to counter Soviet efforts

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to use a "peace-offensive" tactic to divide the West and to generate sustained support for Alliance programs. Particular efforts are needed in Germany, the Low Countries, Scandinavia, Italy and the UK. Special attention should be accorded to press backgrounders and to cultivation of key organizations, including church, labor, business and youth groups. We should work hard in explaining US/Allied policies concerning both East-West relations in Europe, such as LRTNF, and important areas of instability -- most notably the Persian Gulf and Middle East. We also must engage support for our policies strengthening Western positions and countering Soviet subversion in the developing world.

-- More broadly, we should institute programs to foster support for and pride in the Western values of freedom and the Alliance of Democracies in a largely authoritarian world. This effort should include exchange programs that reach out to key cultural, educational, labor and business groups and build longer-term support. Particular focus should be on the "successor generation," which increasingly is occupying influential positions in public and private life. US programs to these ends should draw on both public officials and representatives from the private sector.

VI. DEVELOPING THE POTENTIAL OF OUR EAST ASIAN ALLIES AND FRIENDS

The US will face major challenges and opportunities in the Asia of the 1980s. Although these will have their own regional and sub-regional character, they will most particularly be influenced by our global competition with the Soviet Union. Moscow's posture and strategy in Asia must be seen in the context of Soviet global operations and objectives.

Soviet Objectives

Within East Asia, Moscow has multiple objectives:

- 1) to gain secure air and sea routes between the Soviet Far East and the Indian Ocean region, linking together Soviet-owned or operated facilities and friendly ports and air fields, from Vladivostok to Southwest Asia and Africa, so as to enable the USSR to project its power throughout the Asia region and deny such a capability to the US;
- 2) to maintain superior forces vis-a-vis China; limit Beijing's influence; inhibit China's modernization, particularly military; and settle Sino-Soviet differences on Soviet terms, without significant compromises and in a way which neutralizes China in the East-West context;
- 3) to distance Japan from both the US and China without relinquishing ; control of Japan's Northern Territories; encourage major Japanese investment in Siberia, and persuade Tokyo that good Soviet-Japanese relations would benefit Japan economically and obviate the need for Japanese re-armament or cooperation with the US in anti-Soviet efforts;
- 4) to deepen Soviet penetration of Indochina, expand the Soviet military presence there, and use that foothold to project power throughout the region and beyond;
- 5) to neutralize non-Communist Southeast Asia as a political force and erode US influence by seeking to demonstrate Soviet power and US weakness;
- 6) to support the North Koreans in an effort to displace Chinese influence in Pyongyang; and
- 7) to expand the Soviet presence and involvement in the South-west Pacific, at the expense of the US and its allies.

Factors In Our Favor

In confronting the Soviet challenge in Asia the US must channel a heightened Asian awareness of the Soviet threat into specific and mutually supportive policies and actions which benefit US interests as well as the interests of our Asian friends and allies. Moscow's stepped-up military development, and its strong backing for proxy

Vietnamese aggression has aroused anti-Soviet fears in states outside of Indochina. Indeed the invasion of Afghanistan is viewed with far greater alarm in Asia than in Europe, for it manifests clear cut imperialist expansionism and an aggressive Soviet willingness to strike at East Asia's vital source of oil and the lifeline along which that oil travels. The adverse national reactions to this growing Soviet threat is visible throughout East Asia; for example in national efforts to strengthen military preparedness (e.g., Malaysia's decision to double the size of its army), the much greater cohesiveness of ASEAN, and the willingness of Japan to direct its military efforts, Overseas Development Assistance, and politico-economic sanctions in support of the US effort to punish and turn back Soviet imperialism.

US Objectives

In the specific context of East-West competition, US objectives in East Asia are to continue the orderly expansion of political, economic and military ties, to protect our assets and counter the Soviet threat. We must work to minimize where we cannot deny the Soviets use of non-USSR territorial bases of operation for political destabilization or military support. To accomplish this denial, the United States must:

-- Ensure that it has a strong and visible military, political and economic presence in the region which can be sustained throughout the 1980s and on to the end of the century.

-- Reconfirm the American commitment to the political independence and economic growth of East Asia as vitally important to our own security. Acting independently and working through key allies and regional friends -- ASEAN, and the PRC -- rebuild confidence in our diplomatic reliability.

-- Promote and assist the development of individual national and -- in appropriate instances -- joint military forces through improved consultations, exchanges of personnel, joint exercises, and aid programs.

Political Relationships

To achieve these objectives, the US must carefully manage various relationships with East Asian nations and build connections which will allow these relationships to reinforce one another.

1. The Major Allies: Japan, Korea, Australia, New Zealand, the Philippines

-- Grant full recognition to the pre-eminence of Japan as a nation in the forefront of the US global alliance structure which must at all times receive treatment fully equivalent to that accorded our key NATO allies. Set as a goal the creation of a US-Japan relationship in Asia which is akin to that of the US and UK in the European context.

-- Provide full and close consultation with our ANZUS allies, on a basis similar to that accorded NATO, recognizing not only their contribution of installations vital to US defense and foreign policy interests but also their ability and willingness to join in efforts outside the region (i.e., the Indian Ocean) to counter the Soviet threat. Reassure them that US policies will take their national interests into account.

-- Promote increasing consultations and coordination among our major allies on issues of common strategic concern.

-- Incorporate in our diplomacy a respect for regional sensitivities such as Japanese apprehensions about Soviet pressure; mutual Japanese/Korean wariness; fears of a Japanese military resurgence; and Korea's latecomer role among our allies.

Japan

-- Encourage greater Japanese alliance role in the form of supportive diplomatic activity and economic assistance to strategically important countries;

-- Promote acquisition of a Japanese military capability to provide for Japan's defense, within its constitutional restraints, in such critical areas as air defense, anti-submarine warfare and protection of vital sea lifelines. Support improvements in US-Japanese ground forces cooperation and coordination starting perhaps with expanded combined training activities. Stimulate increased Japanese financial support of the global US security role through greater regional responsibilities for Japan and greater contributions to maintenance of US forces and US support activities located in Japan.

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-- Concentrate on developing specific US-Japan diplomatic cooperation to frustrate Soviet efforts to build strategic links between their positions in East Asia and in Southwest Asia, the Indian Ocean and the Persian Gulf; resist extension of the Soviet proxy system; and, ultimately, turn the USSR out of its foothold on the Indochinese peninsula.

-- Tap the tremendous economic power of Japan. Further encourage its growing recognition that Japanese overseas development assistance (ODA) can play a major role in preserving the economic prosperity and political institutions of poorer states in East and Southwest Asia.

Korea

-- Focus attention on the continuing danger of military conflict on the Korean peninsula. Continue to make clear that the US will maintain its ground presence there and take measures, through increased FMS credits, to support the modernization of the ROK's armed forces so as to rectify the current unfavorable imbalance in the military capabilities of the North and South. Ensure close consultations with the ROK on major allied decisions to counter Soviet aggression, such as adoption of economic sanctions or redeployment of US military resources from the Western Pacific to the Indian Ocean.

Australia/New Zealand

Enhance defense cooperation with Australia and New Zealand in a way that provides significant support for naval and ASW coverage in their geographic areas, and raises their contributions to East Asian military training and intelligence support, particularly under the Five Power Defense Arrangement. Reaffirm the historic importance of US-Australia ties. Seek to stimulate more widespread popular support in Australia/New Zealand, through ICA programs, for following the US lead in strengthening collective Asian defenses against the Soviet Union and for upgrading the Western defense posture in the Indian Ocean. In view of New Zealand's small size, sluggish economy and dependence on imports for modern armaments, seek ways to make it easier for New Zealand to acquire expensive weapons systems (e.g.; a new frigate to retain blue water naval capability.

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2. China

-- Solidify China's strategic alignment with the West and prevent a turn toward neutrality in the East-West context.

-- Maintain present benefits to the US and its allies of China's anti-Soviet posture: i.e., the tying down of major Soviet forces which could otherwise be deployed elsewhere; Chinese pressure against Vietnam intended to prevent consolidation of Hanoi's control over Indochina; PRC support for Thailand and Pakistan and opposition to Soviet occupation of Afghanistan; Beijing's displacement of Moscow as an arms supplier with a number of Third World countries; and its strong opposition to Soviet positions in the Third World and in multilateral forums.

-- Seek to consolidate the security component of the US-China relationship by considering granting China expanded access to US defense equipment, arms and technology, and by deepening our strategic dialogue, all in ways that do not alarm our Asian allies.

-- Support China's efforts to become a secure and prosperous member of the Asian community and to promote regional understanding of the constructive role China can play in that community.

-- Recognize that the degree of closeness in US-PRC cooperation in the East-West context will continue to be influenced by China's weakness and its strong sense of nationalism. Both sides must avoid generating expectations which cannot be fulfilled. The US should be sensitive to acts and statements which could suggest PRC subordination to the US or an implication that China was being manipulated to serve our interests.

-- Prevent identification with Chinese interests in Asia, never allowing strategic cooperation to become tacit recognition of a Chinese sphere of influence encompassing other Asian friends.

Taiwan

-- Conduct our unofficial relations with Taiwan in a positive manner making clear the abiding US concern for the well being of Taiwan's people and the health of Taiwan's economy.

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-- Continue the US policy of carefully selected defensive arms transfers to Taiwan in order to meet Taiwan's legitimate defense needs without undermining our long-standing interest in a peaceful settlement of the Taiwan problem.

-- Seek to prevent Taiwan overtures for security support from USSR; toward formal independence; or toward developing operational nuclear capability: any of which could have serious negative consequences for Taiwan-PRC relations as well as for the US-PRC cooperation.

-- Recognize the geographic position of Taiwan along the vital sealanes from Korea/Japan to Southeast Asia and the Malacca Straits. In a crisis or emergency, the Taiwan navy and air force might play a modest supportive role in countering the expanding Soviet maritime influence in the adjacent China Sea.

3. ASEAN

-- Strengthen US and allied economic and political support for the ASEAN nations to promote a Western orientation.

-- Provide improved security assistance to the ASEAN countries, especially Thailand, in order to discourage Soviet and Vietnamese attempts to intimidate or neutralize them.

-- Recognize that ASEAN is not a military alliance but rather an ostensibly economic body which has provided an increasingly useful vehicle for political consultation and coordination both among the ASEAN states and between ASEAN and outsiders such as the US, Australia/New Zealand, and Japan. In the absence of any internal ASEAN movement to militarize the association, refrain from pushing it in that direction and instead pursue security cooperation with member states through bilateral channels.

-- Remain sensitive to intra-ASEAN disputes and differences as well as to the member states' varying interpretations of the Soviet and Vietnamese threats and the appropriate Chinese role in the region.

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-- Continue to coordinate Indochinese policy closely with ASEAN, while working to buttress the already heightened ASEAN recognition of the larger danger of Soviet regional penetration.

-- Increase aid to Thailand as ASEAN's front-line state resisting Soviet-backed Vietnamese aggression; preserve close relations with the Philippines, to protect US bases there which serve a vital regional and Southwest Asia power projection role; and improve relations with Indonesia, which faltered under the previous Administration, so as to continue to block any improvement in relations between Indonesia and Vietnam or the USSR and to forestall any problems in maintaining US straits access through the archipelago.

-- Promote increased consultations between ASEAN and our major Asian allies, and contacts between ASEAN and our European allies.

4. Indochina

-- Work in concert with all allied and friendly states to increase economic and diplomatic pressure on the Vietnamese to withdraw from Kampuchea.

-- At the same time, use every chance to demonstrate to Hanoi the penalties attached to being a Soviet proxy and the benefits available through accommodating the West.

-- Avoid treating Laos, or even Kampuchea, as simply extensions of Vietnam and thus retain the ability to drive a wedge between these smaller states and their Vietnamese patrons and the chance to play the Soviets/Vietnamese/Laotians/Kampuchians against one another to our advantage.

-- While working tactically with the Chinese to create pressures on Vietnamese, avoid suggesting that U.S. objectives and interests are identical to Beijing's and that Vietnam could not accommodate us without emboldening China.

5. India

-- Make clear to New Delhi that the loss of Pakistan would bring the Soviets to India's border. Undoubtedly the pivotal country in South Asia, India's great political, military and economic potential is critical to arresting Soviet expansion beyond Afghanistan.

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-- Encourage reconciliation of India and China as two states with a major stake in the containment of Soviet power in South Asia, without forcing our views.

-- Step-up ICA efforts to expose the extent to which India's interests have been mortgaged to the USSR.

6. Micronesia/Pacific Island Nations

-- Reserve the right to "strategic denial" and preserve our preponderant influence in what are now the Trust Territories after termination of the Trusteeship.

-- Work with our Asian allies to ensure the future Western orientation of the small nation-states of the Pacific and deny the Soviets any opportunity for penetration of the region.

Longer-Term Challenge and Opportunity

Our East Asian allies and friends -- most notably Japan and China -- possess an enormous potential which we will want to bring to bear in the competition with the USSR in the Eighties. In the longer-term, this will require us to construct an imaginative US policy that draws maximum support for US objectives from the Sino-US and Sino-Japanese-US relationships. It also will require us to tap the economic and political-military potential of great Asian powers, including India, in a framework that promotes significant US influence on their developing global policies. Managing this set of challenges will be a major priority for US foreign policy in the 80s and is an essential prerequisite of a sound US global strategy.

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VII. Areas of Instability

Introduction

Soviet expansionism is nowhere more evident than in its activities in the Third World. Angola, Ethiopia, Kampuchea, Afghanistan and El Salvador all have been objects of Soviet and Soviet proxy military activity in recent years. The Soviet Union poses a serious threat to the Persian Gulf's oil producing regions, whose output is vital to the West. The United States must undertake a counteroffensive strategy and seize the initiative back from the USSR, by driving up the cost to Moscow of its foreign involvements and rebuilding our own political/military position.

US Objectives

Long-term US objectives in the developing world are:

- to assure an open and diverse international order free of Soviet domination;
- to protect and enlarge the sphere of free institutions and practices, through the promotion of peaceful political change;
- to encourage economic development through a stable and open international economic order;
- to ensure continued access for the US and its Western allies to the resources, particularly oil, that are the preconditions for the political independence and economic stability of the industrial democracies.

In the long run, we have reason to be confident that the economic and technological advantages which the developing countries can obtain from the West outweigh any political and economic advantages which LDC elites can obtain through cooperation with the USSR. Marxism-Leninism is an ossified cult which finds declining acceptance in the Third World, whereas there is a growing (if reluctant) recognition that participation in the Western economic system is the most effective motor of development. The problem for American policy is to translate these theoretical advantages into concrete gains, taking account of the powerful forces of nationalism in pursuing our own policies and in reinforcing local opposition to Soviet influence.

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Contrary to the beliefs of the past Administration, the US will not be able to effect such a translation without both creating and using power. To be effective US power must be harnessed to a skillful diplomacy that takes account of our comparative advantages, Soviet liabilities and local factors. Developing countries need economic help, but their leaderships are more immediately concerned with the problem of political survival. The Soviet Union, with its military capabilities and other assets, network of bases and proxies and remains fully competitive in the game of providing security or threatening insecurity.

Soviet Objectives and Behavior

A US strategy for meeting the Soviet challenge in areas of instability must be based on an understanding of Soviet objectives and operational behavior. Based on the experience of the last quarter century, these can be summarized as follows:

-- The Soviets do not have a "master plan" for expansion in the Third World; on the other hand, they do have the long-term objective of maximizing their influence wherever possible.

-- The Soviets are "aggressively opportunistic": they have expanded their influence by seizing upon conflicts and rivalries of predominantly local origin and using them to further their own interests.

-- Moscow has sought to maximize the quantity of its influence in the developing world by aligning itself with virtually any state, national liberation or ethnic group hostile to the United States, often with extraordinary tactical flexibility.

-- Besides hoping to maximize the quantity of influence, the Soviets have in recent years sought to increase its quality as well, urging Marxist-Leninist ideology and Soviet-style internal political structures on their clients. Moscow no less than the US has had to deal with the diffusion of power to seemingly intractable nationalist states in the Third World which are not easily subject to superpower control.

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-- As a general rule, the Soviets move cautiously, hedging their risks by using where possible arms transfers and proxies rather than their own forces, and expanding their operations gradually so as to allow room for disengagement.

-- Soviet willingness to run risks and commit resources in the Third World depends heavily on local conditions and the US response.

-- Where the US has been willing and able to confront the Soviet Union and present it with added risks or when local conditions have made success questionable, the Soviets have exercised caution.

-- On the other hand, the Soviets can move rapidly to exploit situations where they expect to face little opposition from the US, where they believe the US lacks the capability or will to resist their advances or where local conditions favor the USSR over the US.

While the Soviets generally regard operations in the Third World as low-risk, low-stakes ventures, a sharp distinction must be drawn between the Persian Gulf and the rest of the developing world. Soviet control over Persian Gulf oil production, besides constituting an enormous transfer of wealth, would confer on Moscow an automatic veto on growth in the Western economies. Such control could be used politically to split Europe and Japan from the United States, and would constitute a powerful pressure point in an East-West crisis anywhere around the globe. The shadow of Soviet power has already begun to limit US diplomacy in the region and affect European attitudes. With the fall of the Shah, the Persian Gulf is at the same time an area where the Soviets hold a substantial military edge over the United States. These factors make the Gulf a stake of enormous importance to the Soviets and put it on a par with Europe and Northeast Asia. Indeed, it is an excellent field for the application of the indirect approach: the Soviets may see the Gulf as the back door to Europe, one which can be opened at much lower cost and risk to themselves. In view of the stakes involved the US must be prepared for the possibility that Moscow will abandon its usual gradualism and caution and intervene directly to seize control of the Persian Gulf oil.

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Our new emphases on the Persian Gulf should not obscure our considerable interest in other parts of the developing world, including our neighbors in the Western hemisphere and the currently volatile Central America; the ASEAN states in southeast Asia; and the geopolitically important and mineral rich region of southern Africa. All of these areas will require greater US attention, resolve and resources if we are to protect our interests and avoid discord with our allies.

A New American Strategy

This Administration must act now to engage support for a more activist foreign policy and to move beyond the passivity of the post-Vietnam period. However, residual limits on US military involvement still remain, both politically and legally. This will require a sharp focus on US national interests and those of our allies, and a global strategy which makes sense in terms of resource allocations and Alliance politics.

The United States therefore must endeavor to use its existing resources more efficiently by adopting a counter-offensive strategy in the Third World. Such a strategy has both a moral and a strategic component. The US should put the spotlight on the shortcomings of Soviet proxies and the Soviet system itself, and keep them on the defensive, while making clear our hope not simply to maintain the status quo but to move forward to a world reflecting our own beliefs in freedom and democratic values. On a strategic level, we must wrest the initiative away from the Soviets and face them at times and places of our own choosing so as to take advantage of our strengths and their weaknesses. This counter-offensive strategy must be carefully tailored in light of regional political and cultural realities.

The United States must be prepared to take the initiative in exploiting the vulnerabilities of Soviet proxies. Countries or groups allied with the Soviet Union must be made aware that the benefits of these ties also will entail costs, especially if they resort to force or subversion to advance their interests or those of Moscow. Over the longer term we will work to weaken their Soviet connection through appropriate use of incentives and disincentives.

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One area where such a new strategy may be applied is Afghanistan, where the Soviets face a debilitating guerilla war and have put themselves in an indefensible moral position. We can maintain the pressure on Moscow by continuing to call for a total Soviet withdrawal, by encouraging political initiatives to keep world opinion focused on Afghanistan, by providing appropriate encouragement to the Afghan freedom fighters and by working to strengthen Pakistan's security.

The United States must recognize and exploit the multifaceted instruments of leverage it possesses vis-a-vis Soviet Allies. As the Soviet empire has grown, so have its vulnerabilities. It used to be the case that instability anywhere in the Third World provided the Soviet Union with an opportunity for increasing its influence at the expense of the United States. While this remains generally true, it is not exclusively so. The Soviet Union has become a status quo power with respect to regional conflicts such as those in Afghanistan, Angola, and the Horn of Africa. Moscow's Cuban proxy, as well as regimes like those ruling Syria, Iraq and Ethiopia, are narrowly based and face severe ethnic, social, racial, religious, and economic problems. Their internal character, moreover, is at least as morally suspect as those US allies who are traditionally the targets of attack. The United States is entering an unfamiliar period of competition in which the characteristics of the early Cold War are reversed: unrest and national liberation movements at times may create opportunities for furthering American interests, while the US will have to worry about being deterred from upsetting the status quo by Soviet strategic power. Where warranted by US interests, we will have to be ready to raise the ante to counter Soviet power in these situations.

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A counter-offensive strategy would attempt to preempt the Soviets not only confronting Soviet proxies, but by taking timely political action as well. Insofar as regional conflict and tension promotes Soviet influence and expansionism, a farsighted and cost-effective American policy would seek to settle those conflicts in advance to foreclose the chance of Soviet meddling, as in the case of the British settlement of the Zimbabwe problem. In some cases this will involve the recognition that it is often the actions and policies of US allies or would-be clients that are responsible for instability and discontent. Support for allies must be construed in a broad sense that includes the creation of durable institutions reflecting our own values. Political and economic reforms often are essential in this respect.

In view of our resource constraints, US policy must: better distinguish between primary and secondary interests in the Third World. The Persian Gulf is clearly a vital interest and will have priority over other areas. Central America has substantial untapped oil resources and will become increasingly important in the next decade. Here certain traditional elements of containment must be retained. The US must create and be ready to use a credible -- and if necessary, unilateral -- intervention capability sufficient to preserve Western access to oil in the face of Soviet and local threats. We can, and must, solicit the support of our European, Japanese, and regional allies for this task. But our experience in Iran should also indicate the danger of relying too heavily on others to do our work for us. The Nixon Doctrine was an attractive, but ultimately insufficient means of protecting vital US interests. Similarly, horizontal escalation may be useful as a stop-gap measure reflecting our current vulnerability in the Gulf, but cannot itself be counted on to deal with the threat. Since the Soviets have their own horizontal escalation options, the net results need to be thought out with some care in each case before pursuing specific linkages. The alternative of direct power projection is both costly and difficult, but necessary. The Administration will have to make a major effort to persuade the American public of the absolute urgency of doing so.

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Apart from the Persian Gulf and the Caribbean basin, however, the US will not always have the ability or willingness to intervene directly and we often will be forced to rely on a variety of alternative instruments. An imaginative policy will make use of any number of options singly or in combination.

First, America's major European and Japanese allies have special strengths and areas of competence outside the immediate NATO-Northeast Asia theaters, such as Japanese economic strength in the Middle East or the French presence in Africa and the Indian Ocean. These roles can be encouraged and considerably expanded. When allies are not prepared to act, they must be persuaded not only to tolerate but to support unilateral American actions on behalf of the Alliance as a whole. With good planning and coordination, we often can and should produce such results.

Second, regional allies can be used not only to support direct US power projection, but as out-of-country partners as well. Such use of regional allies reduces the risk of direct US-Soviet confrontation and takes advantage of the regional powers' greater awareness of the local context. Regional partners can provide many types of direct and indirect support for mutual security objectives, and can be surprisingly effective when pitted against local forces. The US can often achieve a large return on a relatively small investment of forces, such as the deployment of transport aircraft.

Third, US economic power is a major superiority over the Soviet Union and should be brought to bear directly in addressing the development needs of Third World countries. The United States should be able to facilitate private investment and to offer substantial foreign aid where necessary. This, of course, will require the commitment of substantial additional resources in a time of general austerity. Foreign aid ought to be considered as a type of security expenditure, to be increased in step with the general level of defense spending in the pursuit of our national security interests.

Fourth, intelligence operations in the Third World can be substantially improved. It is necessary to revive a capability for covert political action, so as to be able to meet indirect Soviet threats on their own level. The

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time to have prevented the Soviet occupation of Afghanistan was April 1978, not December 1979. Furthermore, any sound regional strategy for countering the Soviets must be based on better and more timely intelligence that takes into account the full complexity of the local social and historical setting; satellite photography can never wholly replace HUMINT.

Soviet caution and gradualism can be exploited only insofar as the United States is willing to take on certain risks of confrontation vis-a-vis the Soviets. The US should not relieve the Soviets of these risks or encourage them to believe they have a free hand. In crises affecting vital interests, the US must draw the line quickly and firmly.

It is ultimately impossible to devise formulas or policy guidelines that will have universal applicability throughout the Third World. Indeed, that term itself obscures a wide diversity of political, economic and military organizations in and the growing diffusion of power to developing countries. These states now exercise unprecedented power in the international system, complicating the rules of global politics for the US and other major powers. Thus, the problem that the US confronts cannot be characterized in terms of simple juxtapositions like military/economic or Soviet/local; it is all of these simultaneously. Accordingly, an adequate counter-offensive strategy will have to approach each region and issue with nuance and insight, and fashion a creative response that answers each dimension of the problem with the policy instruments appropriate to it.

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Introduction

The current Polish experiment represents an historic watershed for both Soviet imperial policy in general and for Eastern Europe in particular. The Poles are demanding a much more democratic system, one which is much more responsive to their needs and traditions. This experiment is being monitored closely by all parts of the Soviet empire and has enormous implications for change, particularly in Eastern Europe but potentially also within the USSR.

It also will have a major impact in Western Europe -- it is well to remember that the 1939 German/Soviet invasion of Poland triggered WWII and that Stalin's takeover of Poland after Hitler's defeat contributed to the onset of the Cold War.

For all these reasons the Soviets are faced with a painful choice between crushing Poland -- through political-economic measures if possible and by military means if necessary -- and permitting the further unfolding of the Polish drama. Either alternative entails profound and incalculable choices for Moscow and generally for East-West and wider international relations. Moreover, the last six months can afford Moscow little encouragement that half-way measures can cope with the magnitude of this historical movement.

We will want to be sure that US policy remains supportive of the Polish experiment, politically and economically, while protecting American interests. The profound importance and continuing uncertainty of the Polish crisis will require us to review the recommendations that follow in light of future events.

Internal Conditions in the Soviet Union

The Communist system faces virtually no direct opposition within the USSR, but neither does it enjoy much enthusiastic support. The victory in the Second World War created what remains the most, and perhaps the only, secure source of the regime's popularity. The dissident movement, despite the rallying point created by the Helsinki Accords, is weaker than it has been in some time -- and at no time found genuine resonance among the Soviet people. Moscow commands an overwhelming coercive force and shows no sign of lacking the will to use that force to isolate and eliminate direct challenges -- whether centered on political, civil, national or economic grievances.

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The two issues which could spawn social instability, and impinge on Soviet external behavior, are unsatisfied consumer demands and unrest among the non-Russian nationalities of the USSR.

-- With defense claiming a larger share of GNP and with investment skewed more heavily to heavy industry, little real growth in consumption is likely to occur. The food situation is unlikely to improve as the supply of meat and dairy products fails to keep up with rising incomes. As a result, consumer preceptions of stagnation in living standards will be reinforced. Consumer patience is likely to shrink along with food supplies. The Soviet population is more preoccupied with food shortages than with any other domestic problem. Moscow is relying on increases in efficiency and productivity throughout the economy ultimately to raise consumer welfare. This strategy will not work, however, without a better motivated work force. Unless the leadership provides large increases in quality foods and goods now for a populace less willing to defer material satisfactions to the future, hoped-for improvements in productivity will be hard to realize.

-- As the proportion of ethnic Russians in the total Soviet population has declined to approximately 50 percent, maintenance of ethnic integration in the Soviet multinational empire has emerged as a problem facing the Soviet leadership. The Soviets are led by their ideology to believe that economic and social modernization will overcome existing ethnic tensions; but the real effect of modernization may well be to exacerbate such conflicts. A particular problem is posed by the higher growth of the population in the Muslim regions of the USSR. Greater self-assertiveness of these peoples, combined with possible spillover effects of resurgent Islamic fundamentalism in Iran and elsewhere in the Middle East, present the Soviet regime with a potential challenge. In attempting to cope with the nationality issue -- which is not so much an immediate threat to the system as a long-term problem -- the Soviet leadership will probably fall back on instilling Soviet patriotism of a chauvinistic sort.

Against this background, U.S. policy should be based on the following guidelines:

-- We should use the sensitivity of Soviet leaders over their dismal domestic record to keep the USSR on the defensive. Although the internal impact may remain marginal, the international benefits to the West are quite real.

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-- Multilateral forums remain important. Despite the weakness of the Helsinki monitoring groups, CSCE deserves real prominence: it sustains West European interest in human rights (which is otherwise quite cautious and tentative); it provides an opportunity to apply differing pressures on the Western European states and to encourage their internal liberalization and external independence. Above all, CSCE offers a recognized legal basis for holding the Soviet Union to standards of human rights.

-- The U.S. should continue to give the cause of human rights in the USSR prominence, both in bilateral contacts and in multilateral forums. Our aim should be to advance that cause, while focusing international attention on the sad realities of official Soviet behavior in this field.

-- The target groups of Western attention, especially for propaganda purposes, should include especially the Baltic states, all religious groups (especially Muslims), Russian as well as non-Russian nationalities, and growing economic discontent.

-- There should be a sharp increase in resources allocated for broadcasting into the Soviet bloc, so as to permit both needed technical modernization of existing RFE/RL facilities and the expansion of RL in areas optimal for broadcast to Soviet Central Asia, Siberia and the Far East. Negotiation of agreements with other nations concerning leasing of available air time or the construction of new RL facilities should be accorded high priority.

-- There should be a systematic review of our programming policy in the broadcasting area in order to ensure that we have an adequate understanding of audience characteristics and of the objectives we want to achieve. ICA, together with State and other concerned agencies, would prepare a set of public affairs strategies to support the key policy decisions that result from this study. ICA activities should be reviewed in light of the Administration's interest to do more, do it smarter, to hit harder at Soviet vulnerabilities. The U.S. should not be drawn into strident attacks on the party, its leaders, or any foreign policy issue likely to evoke Soviet pride or patriotism.

- make a worldwide effort to play on Soviet authoritarian oppression, shortages and costly military adventures.

- exploit weaknesses in Soviet civic morale by directing attention at the corrupt and demoralized state of Soviet society; virtual disappearance of commitment to Marxism-Leninism; industrial mismanagement and absenteeism; and emphasis on failure of the system to provide not a decent but just a tolerable standard of living.

In general, our competitive objective should be to nourish internal Soviet pessimism in order to further degrade productivity and impede innovation across the whole spectrum of the society.

The Seventies opened up the USSR to an increased knowledge of conditions in other countries and this has helped to decrease the common citizen's willingness to accept shortages and institutionalized poverty. Contact with the West has to a considerable degree lowered Soviet morale and raised expectations. The US has a competitive edge if we have the will to exploit it.

Eastern Europe

The Soviets regard Eastern Europe as essential to their security and seek to maintain it as a military, political and ideological buffer zone as well as a potential launching pad against the West. Throughout the post-war era, Moscow has sought to achieve the maximum possible degree of hegemony over Eastern Europe, using the Warsaw Pact, CEMA and the doctrine of proletarian internationalism as its principal policy instruments.

The Soviets also have an important stake in Eastern Europe's political stability and economic viability. This has been one factor reconciling them, however grudgingly, to some diversity in the area. The Solidarity movement in Poland is the most immediate factor working to promote increased diversity in the area. Economic and other factors are also working to reinforce the trend toward diversity in Eastern Europe.

The Soviets are well aware of the ultimate contradiction between East European nationalism and Russian control. Moscow therefore has shown limited tolerance for either "destalinization" or "desatellization". To counter increased East-West contacts, the Soviets have tightened up internal discipline at home and in Eastern Europe and are pressing for tighter economic integration in Comecon and military integration in the Warsaw Pact. Nonetheless, the actual exercise of control has not proven to be easy. ;

Beyond the immediate crisis in Poland, several basic forces are at work eroding Soviet control:

-- Economic Factor. Eastern Europeans are straining to pay for higher-priced oil and other imports from the USSR as well as Western advanced technology, raw materials, and manufactures necessary to modernize and expand their industries. Thus far, the very large growth in imports from the West has been financed by massive hard currency borrowing. Eastern European hard currency indebtedness has risen sharply, and

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the debt service ratios of several countries are being watched closely by creditors. The post-1973 Western inflation/recession has contributed further to the surge in Eastern European hard currency trade deficits. Unless Eastern European exports can be greatly increased -- an unlikely prospect -- trade will stagnate and it will be difficult for these countries to satisfy rising consumer expectations. This could produce further political instability in some Eastern European regimes which have tried to gain popular support through the satisfaction of consumer demand. This is occurring at a time when chronic domestic economic problems make it increasingly difficult for the Soviets to prop up Eastern European economies.

-- East-West Factor. The CSCE Final Act provisions on human contacts have had a considerable psychological impact in Eastern Europe, stirring Soviet and Eastern European leadership concerns. East-West contacts and tourism also have lifted the hopes of many Eastern Europeans for greater intercourse with the West. Walesa's Solidarity movement has borrowed heavily from Western political and trade union tactics, developing a potentially magnetic model for other Eastern Europeans.

-- Ideological Factor. While highly objectionable to us, the stands of the Italian, Spanish and even the French Communists have had a marked liberalizing effect on intellectuals in Eastern Europe and the USSR. Romania's independent stance on key foreign policy issues and insistence on each Party's right to pursue its own independent course have also caused problems for Moscow. These developments, together with the bankruptcy of Marxism-Leninism, both morally and as a guide to governing modern societies, are likely to be an important source of continuing ferment in the Soviet Union and the Eastern European states.

-- China Factor. The enhanced international role of China and Beijing's independent stand in the communist world continue to concern Moscow. Deepening Chinese relations with the U.S., Western Europe and Japan have generated Soviet concern and opposition to political innovation in Eastern Europe.

-- The Nationalism Factor. This is most evident in the Polish crisis, but each of the Warsaw Pact states of Eastern Europe has its own national traditions and aspirations and, except perhaps for Bulgaria, each nationalism has an anti-Soviet aspect.

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These factors of economic decline and frustrated political possibilities have enhanced the sense of popular dissatisfaction with Eastern European regimes -- Kadar's Hungary appears to be a partial exception -- and increased the prospect of Polish-style social and political tensions. These occasionally may take the form of civil disturbances and violent eruptions. The likely pattern will be one of increased pressure on the Party leaderships by groups, both within and outside the Party, to permit some devolution of power to the more "modern" elements in society. In short, events in Eastern Europe may have a volatile and dynamic character in the 1980's posing major choices for Moscow's management of Eastern Europe, and presenting both dangers and opportunities for the West.

The Soviet response has been a pragmatic combination of holding to a firm line where possible (e.g., East Germany, Czechoslovakia, and Bulgaria) and grudging acceptance of gradual reform or autonomy where necessary, (e.g., Poland, Romania and Hungary).

From a Soviet standpoint, this policy suffers from two basic defects. First, gradual satisfaction of demands -- on economic issues, liberalization or foreign policy autonomy -- inevitably feeds rather than satiates East European appetites; Secondly, given its own major economic and prospective energy problems, it is a calculated act of political will for the USSR to divert scarce economic resources from internal Soviet requirements to the needs of more developed East European economies. The price of holding the Eastern European states in their satellite status will continue to rise. This is quite clear in the Polish case, and in the example of trade and oil guarantees recently given to the GDR.

US Policy

We face both short-term and long-term policy decisions regarding Eastern Europe. In both cases our objectives are to promote internal liberalization, foreign policy autonomy and greater political and personal contacts between East and West. We want in this way to enhance the degree of personal freedom, to further the gradual reemergence of a Western bias within these societies and to highlight the incompatibility of their post-war national development with their current satellite status. We also want over time to encourage them to pursue foreign policies which are more grounded in their own national interests and in more broadly based international cooperation. In a prolonged crisis, these factors might also serve, to some degree, to complicate the East European contribution to Soviet/Warsaw Pact military capabilities and actions concerning Western Europe.

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At the short term, assuming no Soviet intervention in Poland, we should confirm our differentiated approach to East European states, seeking to improve relations and be forthcoming with countries that are relatively liberal (Poland and Hungary) or relatively independent (Romania), while dealing with the other East Europeans (Bulgaria, Czechoslovakia and East Germany) on the basis of strict reciprocity. High-level visits, MFN and the character of economic relations, and the other symbolic manifestations of diplomacy, would be calibrated to reflect accurately the nature of our differentiated relations with particular countries and to avoid conferring legitimation on the more rigid regimes.

Yugoslavia should continue to be accorded special treatment and Yugoslav independence should remain a matter of our national interest. Albania has long ago quit the Warsaw Pact and is a maverick East European state. There presently seems to be little prospect of resuming relations with Albania although contacts should be explored.

In the longer term through the 1980s, we need a Western strategy to foster steady liberalization and growing autonomy of Eastern Europe without the major political convulsions that could attract Soviet intervention. This strategy would involve a variety of political, economic and cultural exchanges designed to intensify contact between the West and Eastern Europe. It would turn on endemic East European debt and economic problems, which are expected to deepen in the 80's when Moscow will be less able to help. By offering economic cooperation, subject to conditions set by the IMF and private Western creditors, we would be seeking over time to enhance our influence and their internal freedom of action.

We should not have extravagant expectations for early or sweeping change, and a Soviet invasion of Poland would undermine this approach for the mid-term. But this approach seems most relevant to the opportunities for steady and positive East European political evolution in the 80's. To be effective this strategy must be managed in coordination with our allies, banks, labor unions and other relevant private groups, to ensure that we increase East European political-economic dependence on the West -- and thereby expand our influence and leverage -- rather than creating a crippling economic Western dependence. The West European and Economic sections of this study (IV and VII) elaborate on the need to integrate this approach with our broader East-West economic policies.

The Soviets will resist this approach and doubtless are prepared to use military force if they perceive a threat to their vital interests. If our analysis of endemic East European

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and Soviet energy weakness is correct, however, a path of rigid Soviet opposition to East European change could have highly counterproductive consequences for Moscow, forcing the USSR to contemplate a series of rolling crises and internal disruptions within Eastern Europe and the possible need for their repeated use of military force.

If the Soviets adopt a more rigid long-term posture and reject change, we may want to consider a set of policies designed to heighten the costs of this course for Moscow. This would be particularly applicable in the mid-term following a Soviet invasion of Poland. For the longer term, however, this would be a more high-risk and speculative US approach, which would render the East Europeans hostage to great power confrontation tactics. In addition it would be very difficult to gain allied support for such a policy.

The Polish crisis illuminates and encompasses all of the factors described above, as well as the significant constraints on US influence in Eastern Europe. Future US policy toward the region will be heavily influenced by the outcome of the Polish experiment. An invasion involving East European troops will freeze contacts for a protracted period and present us with major strategic questions regarding our East European policy.

If the Poles middle through, retaining and perhaps building on the remarkable political and economic reforms already achieved, the Soviets can anticipate further demands for change in other parts of Eastern Europe. In this sense, the present Polish crisis constitutes a major effort to test--and stretch--the limits of Soviet tolerance of political diversity in Eastern Europe. The Soviet response will carry potentially enormous implications for East-West relations, whether Moscow intervenes or permits the Polish experiment to continue.