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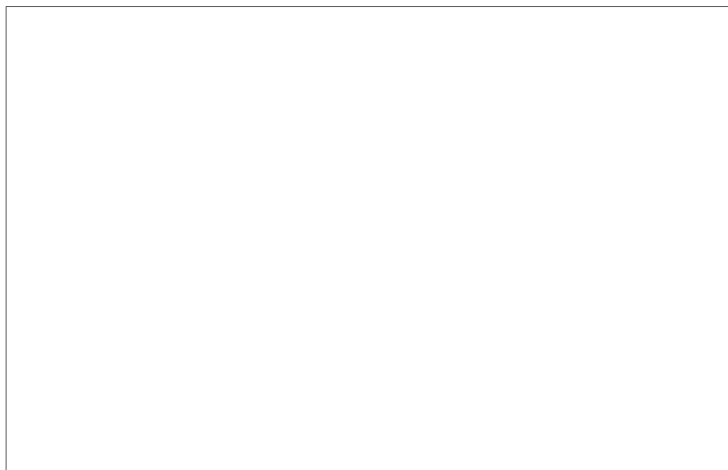
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**USSR Review**



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**November 1988**



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# USSR Review [Redacted]

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**November 1988**

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<p>Over the past year, the Soviet leadership has increased its attention to the consumer and has called on defense industry to support this initiative, as well as continuing its support to his industrial modernization program. There are indications that the weapons producers are being held accountable to increase civil production—reportedly in one case by cutting some military programs—but the actual extent of any trade-offs between civil and defense production is still unclear. We believe that Gorbachev has not reached the point where he will disrupt weapons programs that have recently entered production or are key to Soviet force modernization plans. We think, however, that in the near term Gorbachev must and will enlist additional defense resources—including managers, equipment designers, investment funds, and plant capacity—for his civil programs.</p>		25X1
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**Raising Nagorno-Karabakh to an Autonomous Republic:  
A Viable Solution to the Unrest in the Caucasus?** [Redacted]

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The Soviet leadership has sent a number of signals suggesting that Moscow is giving consideration to upgrading Nagorno-Karabakh's legal status as part of a general policy of granting more rights to "autonomous" entities. Elevating Nagorno-Karabakh from an autonomous oblast to an autonomous republic offers the Gorbachev regime a potential solution to the ethnic strife in the Caucasus, which might be acceptable to the contending nationalities and within the parameters of Moscow's overall nationalities policy.

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**USSR: Rethinking the Role of Investment** [Redacted]

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General Secretary Gorbachev and others in the leadership are having second thoughts about their initial investment strategy that emphasized rapid growth of investment and targeted heavy industry for top priority. Moscow now seems to have decided to restrict investment growth for producing sectors overall, while giving increased priority to consumer goods sectors, housing, and the agricultural distribution network. Reasons for the evolution of the leadership's views include emergence of a large budget deficit, disillusionment with the results of the early investment program, resource constraints, and increased recognition of waste of investment resources.

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**Moscow Urges the African National Congress To Focus on Political Struggle** [Redacted]

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The Soviets continue to promote the African National Congress as the main player in the struggle against the current apartheid regime in South Africa, but they appear to have shifted their approach on how to conduct this struggle. They apparently calculate that a violent overthrow of the regime is unlikely in the near future and that the ANC must complement its military actions with greater emphasis on political tactics with a view to securing a negotiated solution.

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## Defense Industry Support to Gorbachev's Civil Agenda

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Over the past year, the Soviet leadership has displayed increasing awareness that it cannot afford to ignore consumer needs. A long history of low priority for consumer goods, the realization that quick gains will not come from "restructuring," and the need for major revisions in the social contract have combined to cause strains within the workforce. Thus, the leadership has raised the priority of the consumer in the 1988 and 1989 plans and recently passed three resolutions to increase supplies and improve the quality of consumer goods and services.

Moscow is turning to the defense industry—a major claimant of Soviet industrial resources—to provide near-term improvements in consumers' living standards. We saw evidence of such a policy at the 19th Party Conference and more specific indicators in the three recent resolutions on consumer welfare. The proposed Resolution on Restructuring advocated releasing resources for peaceful purposes (and for restructuring) and stated that all defense programs must be geared toward "qualitative measures in accordance with Soviet defense doctrine"—that is, geared toward better, but fewer, weapons. The proconsumer resolutions went even further by:

- Directing unspecified ministries (defense industry) to convert production capacity currently being used to produce "production and technical [weapons] goods for which demand is falling" to production of consumer goods.
- Specifically calling on eight out of the nine defense industry ministries to improve the quality and increase their production of televisions, refrigerators, and freezers. Moreover, although the leadership's strategy appears to be undergoing some refocusing, its commitment to modernizing civil industry seemingly has not weakened.

### *Defense Industry's Role*

Gorbachev has never called into question the basic mission of the defense industry—to develop and produce in quantity high-quality weapon systems. Rather, he has built upon defense industry's longstanding production strengths to expand the sector's agenda. For example, from early 1985 on, an integral part of his strategy has been to rely on defense industry to provide the high-technology producer durables—computers, robots, computer numerically controlled machine tools—needed for civil modernization, because defense industry alone within the USSR has sufficient capabilities in these areas. Over the past 18 months, however, we have seen defense industry's civil priorities move closer and closer to the consumer—from building the high-tech machine tools that produce the equipment used to manufacture consumer goods *to expanding production of the equipment used to produce consumer goods, and to including stiff requirements for surging production of consumer goods.*

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Now defense industry is being called on to make both an immediate, direct impact on consumer welfare by increasing production of consumer electronics and appliances, as well as a longer term indirect impact on the supply of other consumer goods—especially textiles and food—through its participation in modernizing food-processing and light industry factories. As a longtime source of consumer and producer durables, defense industry has the potential to support Gorbachev's full agenda—his new emphasis on consumer welfare as well as his economic modernization campaign (see figure). We estimate that, by the early 1980s, fully one-third of defense industry's final output was civil, rather than military, in nature. Hence,

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the question of support to the civil sector is not one of basic technical capabilities, but one of resource priorities. [redacted]

### ***Specific Tasking***

Gorbachev's original program called for the defense industry to apply its capabilities to support the high-tech challenge. In fact, almost two years ago, a prominent Soviet economist claimed that defense industry specialists and new production technologies would be transferred to the civilian sector. Open-source [redacted] reporting indicate that several defense industry organizations were assigned to participate in or lead the research on several target areas of the modernization program, including rotary production technology and robotics. [redacted]

Since late 1987 we have seen steps to assign the defense industry responsibility for supporting programs focused on the consumer, rather than on production technology per se. In particular, defense industry has been directed to:

- *Develop and implement a program to retool the food-processing and light industry sectors.* On 1 March 1988, the Ministry of Machine Building for Light and Food Industry and Household Appliances, a civil ministry, was disbanded and its 260 plants resubordinated to eight ministries, more than half of which are in the defense industry. In addition, the Military-Industrial Commission has been assigned responsibility for the defense industry's efforts in this program through 1995.
- *Increase production of high-quality consumer goods, primarily at plants which already produce such goods.* The defense industry has been tasked to produce more consumer goods and to significantly improve their technological level and quality.
- *Convert facilities from military to civil production.* Several defense industrial plants affected by the INF Treaty have claimed conversion to civil production. Moreover, the Acting Director of the Soviet Institute of Economics, Viktor Loginov, recently claimed that a "number" of defense-industrial enterprises have been switched entirely to producing consumer goods, while others are making such production a priority rather than a sideline. [redacted]

### ***Implementation of Civil Programs***

The regime has already committed defense industry to a marked increase in capital goods deliveries, so new initiatives in the production of consumer goods probably have set up substantial civil-military tensions that are difficult and possibly time consuming to resolve. Over the past few months, we have seen signs of defense industry apathy—and in some cases resistance—toward even the civil modernization agenda of 1987. In a televised meeting of the Council of Ministers on 19 October 1988, Soviet Prime Minister Ryzhkov responded by rebuking Igor Belousov, the head of the Military-Industrial Commission (VPK), for defense industry's failure to boost production of machinery for food processing. Ryzhkov ordered the defense industry to staff newly acquired civil plants quickly with its best people and to integrate production of food-processing equipment into its mainstream—the weapons-production complex. He warned that anyone who failed to get with the program "is making a big mistake and life will put him right." [redacted]

In what we believe was a response to this pressure, Lev Ryabev, the head of Ministry of Medium Machine Building—the organization responsible for nuclear weapons production and traditionally one of the most secretive bureaucracies in the USSR—took the unusual step of detailing his support for civil programs. In an interview on 9 November, he described his plans to produce more equipment for the dairy industry and private consumers. He acknowledged that military programs would be affected. [redacted]

Ryabev's statements indicate that at least one defense-industrial Minister has a serious commitment to goals in the civil sector, and others probably will follow his lead. A prime candidate is the Minister of the Aviation Industry, who last month on national television pledged that his Ministry would produce macaroni production lines and not "scrap metal." [redacted]

Even if Moscow has decided to switch substantial defense industry resources from the military to the consumer, we should not be surprised by the fact that we have not seen any direct evidence of such a shift. The lack of evidence may mean that, even though

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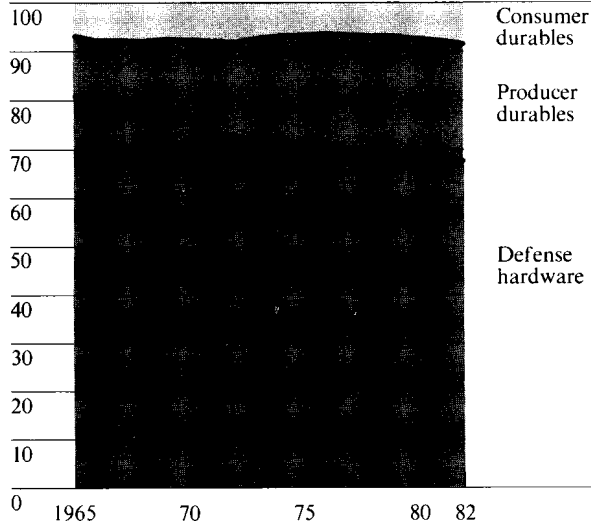
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**USSR: Selected Data on Civil and Defense Machine Building**

**Composition of Defense-Industrial Production**

*Percent in 1982 constant rubles*



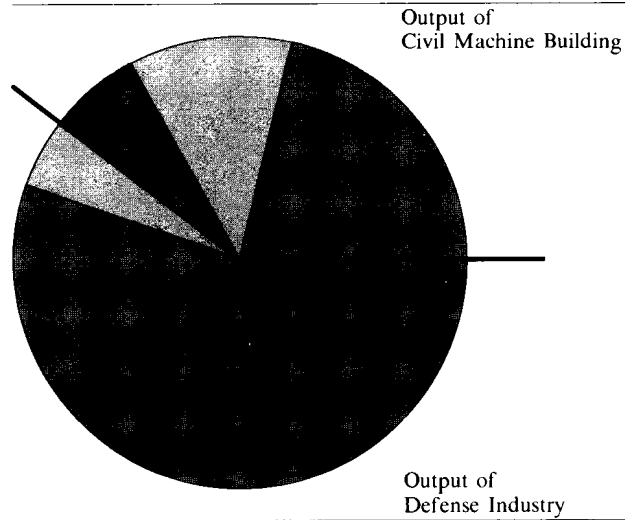
**Selected Defense Industry Output: Share of Total Production in 1982**

*Percent*

<b>Consumer durables</b>	
Refrigerators	50
Washing machines	33
Tape recorders	90
Television sets	100
<b>Producer durables</b>	
Numerically controlled machine tools	30
Computers	75 to 90
Tractors	15
<b>Defense hardware</b>	
Aircraft	100
Missiles	100
Ships	100
Land arms	75 to 90

**Composition of Machine-Building Production, 1982**

*Percent*



Note: Data represent deliveries to final demand but exclude capital repair.



### Illustrative Strategies for Increasing Defense Industry's Support to Civil Programs

Strategy <sup>a</sup>	Resource Requirements	Potential Impact on Civil Program	Potential Impact on Defense Program
Increase deliveries of capital goods to the civil sector by diverting equipment intended to support weapons production.	No additional resources required.	Substantial. Over 25 percent of defense industry output is high-quality capital equipment, which we now estimate is used to retool weapon-production facilities.	Substantial in the long run. In essence, this strategy would mortgage future production capability by postponing upgrades to defense plants.
Increase resources for civil production at civil plants by closing weapon plants.	Minimal. Close down weapon final assembly plant or lines. Redirect raw materials and intermediate products. Reassign labor force.	Substantial. Could release high-quality resources (steels, electronics) that are in short supply.	Potentially substantial cut to near-term weapon production. Plant could be mothballed for mobilization contingency.
Increase output of civil goods using production lines currently devoted to the manufacture of military hardware.	New capital equipment to retool production lines, different supplies, and possibly training for the work force.	Limited. Plants could only produce common-use durables (trucks, automobiles) in the short run. Eventually they could expand capacity in other areas, especially transportation equipment.	Substantial. Would reduce near-term as well as long-term weapon-production capacity.
Design new consumer goods and capital equipment rather than weapons.	A refocus of selected elements of the RDT&E base from defense work to civil applications.	Substantial in the long run. The best trained and equipped R&D resources are currently devoted to defense.	Limited in short run, given long gestation period for new weapons, but could be substantial over the long run.
Consolidate weapons production at fewer plants to free final assembly floorspace for civil production.	Reallocations of and possibly additions to the labor force and new and different capital equipment and supplies.	Moderate. Would provide final assembly floorspace but only limited workers, materials, and components.	Minimal in the short run. Possible substantial reduction to surge capacity needed for mobilization.
Increase output of consumer goods, using defense industry production lines currently devoted to the manufacture of those goods.	Larger work force for double-shifting, additional supplies, materials, and components.	Substantial. Only about 10 percent of defense output is consumer durables. As much as doubling output is feasible and would add as much as 5 billion rubles of consumer durables to annual output.	Limited. Minor disruptions at the factory level as some workers were shifted to civil production lines. Disruptions would increase if supplies, such as microelectronics, were diverted.
Increase deliveries of capital goods to civil factories by expansion of production at defense industries.	Would require double-shifting and additional supplies, materials, components, and labor.	Potentially substantial. Defense industry has the capacity to expand production of highest quality equipment, if labor and materials are made available.	Probably limited as long as labor and components are not diverted from defense production.

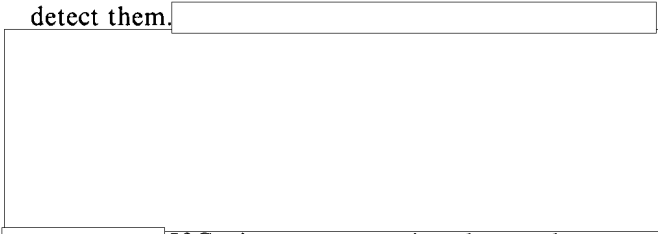
<sup>a</sup> Strategies could be combined. This table does not address another broad set of strategies—one based on changing priorities of purely civil programs within defense industry.

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high-level decisions have been made, they have not yet been implemented. At a minimum, altering the guns-versus-butter ratio requires more than a budgetary adjustment and takes time to enact. New designs must be developed and tested; production plans must be changed; financial, material, and human resources must be reallocated; new production processes must be set up; and the goods that emerge must be priced and shipped to customers. [redacted]

If and when major transfers from military to civil production begin occurring, we should be able to detect them. [redacted]



[redacted] If Soviet press reporting shows a large, rapid increase in production of selected consumer goods such as television sets, this would be a reasonable indicator of increased defense industry support because almost all such consumer electronics are produced by the defense industry. If the conversions were on a smaller scale, however, any evidence probably would be difficult to find and interpret. The attenuation or early phasing out of a few weapons programs, for example, would be very difficult to detect and accurately evaluate within a year or two of when it began [redacted]

**Leadership's Options for More Support**

Moscow's efforts so far to involve the defense industry in its civil modernization and proconsumer programs do not appear to have limited Soviet capabilities to develop and produce weapon systems. Until now, the expansion in defense industry's support to civil programs has been wide in scope but limited in implementation. If, however, Soviet leaders now enforce a

change in the sector's priorities as Ryzhkov has ordered and as Ryabev has claimed, defense industrial activities and possibly future weapons production will be affected. [redacted]

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In the table, we postulate various strategies available to Soviet leaders and give a sense of the payoffs and costs to the military corresponding to each. The first two options, which divert resources or curtail current weapons production, would be relatively easy to implement in the near term because they do not require new production activities. Options three, four, and five are harder because they require switching from a defense-related activity to a civil activity. Options six and seven are even more difficult, requiring factories to do more for civilian customers but also to maintain defense-related activities. [redacted]

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The actual extent of any trade-offs between civil and defense production is still unclear. We believe that Gorbachev has not reached the point where he will disrupt weapons programs that have recently entered production or are key to Soviet force modernization plans. We think, however, that in the near term Gorbachev must and will enlist additional defense resources—including managers, equipment designers, investment funds, and plant capacity—for his civil programs. Open-source reporting from this summer, for its part, suggests that some long-established weapons production lines may be closed early to release capacity for civil use. If Ryabev was in earnest and other industries follow suit, the defense industry may have to postpone upgrades to weapons plants, delaying the introduction of some new or modified systems.

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**Raising Nagorno-Karabakh  
to an Autonomous Republic:  
A Viable Solution to the  
Unrest in the Caucasus?** [redacted]

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Elevating Nagorno-Karabakh from an autonomous oblast (AO) to an autonomous republic offers the Gorbachev regime one potential way to overcome one of the most severe tests of its domestic policy to date. While possibly pacifying the Armenians through the enhancement of the enclave's status within Azerbaijan and an increased measure of local—particularly economic—autonomy, such a solution could also temper serious disaffection among the Azeris, whose territory and honor would remain intact along with their ultimate authority over the disputed region. Gorbachev, who has a strong interest in ending the turmoil, might avoid or at least reduce the appearance of backing down to Armenian demands through the adoption of this solution and at the same time restore some degree of credibility with the Armenian people and demonstrate his ability to handle a difficult domestic crisis. [redacted]

Presidium meeting and recommended forming a commission (subsequently established) within the Soviet of Nationalities to review those proposals. [redacted] 25X1

One proposal made at the Presidium session—termed “interesting” by Gorbachev—particularly reflected the Soviet leader's call for expanding the rights of the nationalities and without the change in borders of the Caucasus republics deemed unacceptable by the leadership. Both Armenian First Secretary Arutyunyan and Director of the USSR Academy of Sciences World Economics and International Relations Institute Primakov recommended raising the status of Nagorno-Karabakh to an autonomous soviet socialist republic (ASSR). Then candidate Politburo member and first deputy chairman of the Supreme Soviet Presidium Demichev acknowledged at a news conference the day after the Supreme Soviet session that in fact this proposal “is being studied carefully.” [redacted] 25X1

***Entertaining a Change in Status***

The Soviet leadership has sent a number of signals suggesting that Moscow is giving consideration to upgrading Nagorno-Karabakh's legal status as part of a general policy of granting more rights to so-called autonomous entities. At the 19th Party Conference in June, Gorbachev cited the necessity for “the rights and the obligations of the union and autonomous republics and the other national formations to be defined more precisely” and listed as a basic task the need “to guarantee conditions for the free development of every nation and ethnic group. . . .” [redacted]

***Gains and Losses***

*Nagorno-Karabakh.* Given the realities of the Soviet system, it is possible that elevating Nagorno-Karabakh from an AO to an ASSR would achieve little more than a higher formal status. Moreover, it is not clear whether upgrading Nagorno-Karabakh's state and governmental institutions would have any significant impact on the influence of its party organization vis-a-vis higher party bodies, a key question in assessing the real distribution of power in the Soviet system. [redacted] 25X1

The 18 July 1988 Supreme Soviet Presidium session, while confirming as expected the continued affiliation of the Nagorno-Karabakh Autonomous Oblast (NKAO) with Azerbaijan, nonetheless indicated that further efforts would be made to increase the region's autonomy while remaining in the republic. As then Soviet President Gromyko acknowledged, the effort to resolve the situation “has hardly begun.” Gorbachev indicated that the final word had yet to be spoken on the matter when he encouraged continued discussion of some of the proposals made by speakers at the

Despite these uncertainties, raising the status of Nagorno-Karabakh and allowing it to exercise the full measure of its rights as an ASSR could offer several immediate gains for local elites in terms of their status and ability to exert some influence upon matters within the borders of their region. Nagorno-Karabakh would be entitled to replace the fundamental law under which the enclave operated as an

**Autonomous Republics and Autonomous Oblasts of the USSR**

Union Republics	Autonomous Republics (ASSRs)	Autonomous Oblasts (AOs)
RSFSR	Bashkir	Adygei
	Buryat	Gorno-Altai
	Dagestan	Jewish
	Kabardin-Balkar	Karachai-Circassian
	Kalmyk	Khakass
	Karelian	
	Komi	
	Mari	
	Mordovian	
	North Ossetian	
	Tatar	
	Tuva	
	Udmurt	
	Chechen-Ingush	
	Chuvash	
Yakut		
Georgia	Adzhar	South Ossetian
	Abkhaz	
Azerbaijan	Nakichevan	Nagorno-Karabakh
Tadzhikistan		Gorno-Badakhshan
Uzbekistan	Kara-Kalpak	

autonomous oblast with its own constitution. The Azerbaijan Republic Supreme Soviet retains the authority to give final approval to the document; this is, however, a caveat that would certainly limit the extent of genuine autonomy given to the region. The territorial integrity of the enclave would also be ensured as an ASSR, since Article 84 of the 1977 USSR Constitution (mirrored in Article 81 of the 1978 Azerbaijan Constitution with respect to the Nakichevan ASSR) guarantees that "the territory of an autonomous republic may not be altered without its consent." This would probably assuage any Armenian concerns about unacceptable territorial

adjustments to the NKAO becoming part of a future resolution of the crisis in the Caucasus.' [redacted]

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Nagorno-Karabakh's representation to the republic's legislative and judicial bodies would not be affected by upgrading it to an ASSR, since, like the Nakichevan ASSR, it is already entitled to one deputy chairman position on the republic's Supreme Soviet Presidium and is also represented on the Azerbaijan Supreme Court by the chairman of its highest court. Increased representation to the USSR Soviet of Nationalities might not significantly enhance its direct influence at the national level, but some improvement in Nagorno-Karabakh's position within the republic's Soviet of Nationalities delegation could occur. If Gorbachev's proposals to give the Supreme Soviet some real power are implemented, this influence could become important. [redacted]

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Upgrading Nagorno-Karabakh to an autonomous republic would seem to offer some of the potentially most advantageous changes for the region in the sphere of enhanced government authority. An immediate visible benefit would be an increase in the area's representation at the republic level with the constitutionally mandated membership of its Council of Ministers chairman in the Azerbaijan Council of Ministers—Article 123 of the Azerbaijan Constitution stipulates this for the Nakichevan ASSR. As an AO, Nagorno-Karabakh is not granted in the republic constitution such legally guaranteed representation for the chairman of its executive committee. [redacted]

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Comparing articles of the Azerbaijan Constitution relevant to the NKAO and the Nakichevan ASSR reveals other improvements in Nagorno-Karabakh's status. Article 151, for example, gives the NKAO

<sup>1</sup> According to Article 108 of the draft law on constitutional changes published in *Pravda* on 22 October 1988, the new Congress of People's Deputies will have the power to ratify the formation of new ASSRs and AOs and any changes in borders between union republics. The Supreme Soviet currently has these powers. [redacted]

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### *Comparison of Autonomous Republics and Autonomous Oblasts*

*There are 20 (see table, page 20) autonomous Soviet socialist republics (ASSRs) in the USSR. In theory, they provide an administrative framework for giving some measure of protection to the indigenous language and culture. In practice, they have been used largely as a means of making formal concessions to the interests and national pride of minorities without going so far as to provide them any genuine degree of autonomy.*

*According to Soviet constitutional theorists, an ASSR is a state entity, possessing a range of rights reflective of the political autonomy endowed by its status and therefore similar in certain respects to the union republic in which it is located. Both an ASSR and union republic, for example, have the authority to draft and approve a constitution, confer state citizenship upon residents, and require concurrence for any alterations of territory. Autonomous republics, however, are a constituent part of a union republic and do not have the latter's constitutional right to secede from the USSR.*

*There are a number of formal differences between autonomous republics and autonomous oblasts (AOs)—of which there are eight in four different*

*union republics—but the extent to which their powers differ in reality is unclear as shown in the following tabulation:*

ASSR	AO
<i>State entity in theory</i>	<i>Administrative entity</i>
<i>Constitution</i>	<i>Fundamental law (zakon)</i>
<i>Supreme Soviet, Council of Ministers, Supreme Court with powers defined by federal and republic constitutions</i>	<i>Soviet, executive committee, and oblast court without constitutionally defined authority</i>
<i>Must be represented on Presidium of republic Supreme Soviet by Deputy Chairman</i>	<i>With exception of NKAO, not entitled to representation on Presidium of republic Supreme Soviet<sup>a</sup></i>
<i>Chairman of Council of Ministers entitled to membership in Republic Council of Ministers</i>	<i>Ispolkom chairman not necessarily in republic Council of Ministers</i>
<i>Eleven representatives in USSR Soviet of Nationalities</i>	<i>Five representatives in USSR Soviet of Nationalities</i>

<sup>a</sup> Presumably this concession to the NKAO was made to deflect Armenian discontent over the enclave's incorporation into Azerbaijan.

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Soviet of People's Deputies the power to adopt decisions and set up departments and administrations of executive committees. As an ASSR, however, the Nagorno-Karabakh Council of Ministers would have the same right as its counterpart in Nakichevan to issue decrees as well as "coordinate and direct the work of ministries and state committees and of other organs subordinate to it" (Article 136). In addition, for matters within its jurisdiction, Article 80 would provide Nagorno-Karabakh with the power to "coordinate and supervise the activities of enterprises, institutions, and organizations of union and republic subordination." [redacted]

NKAO party First Secretary Pogosyan recognized the extension of local authority over economic matters in an interview in mid-August 1988 when he noted that, as an autonomous republic with a Council of Ministers, all basic industries in the region would fall under "territorial administrations" and mean essentially "complete autonomy" for local and light industries. Pogosyan indicated further that as an autonomous republic, Nagorno-Karabakh could establish "economic and other relations" with other republics. Given Baku's acknowledged discriminatory economic

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policy toward the NKAO, involving deliberate neglect as well as prejudicial hiring practices, and the significance of economic grievances to proponents of the enclave's reunification with Armenia, securing greater local economic authority through autonomous republic status would be considered a major accomplishment by the Armenians. [redacted]

While upgrading the NKAO falls short of the Armenians' proclaimed goal of reunification, such a solution does enhance the region's position toward Baku and gains a measure of autonomy for it, particularly concerning economic matters. This solution may satisfy Armenian moderates in the near term, but it will not placate the militants still demanding reunion with Armenia as the only acceptable alternative. Pogosyan, perhaps in an effort to convince those recalcitrant Armenians of the advantages ensuing from a change in the NKAO's status, said that "an autonomous republic has much more independence and many more rights and possibilities than an autonomous oblast." He also indicated that upgrading the oblast's status now was a prelude to further improvements when the nationalities plenum—scheduled for sometime next year—would "considerably increase" the rights of autonomous republics and eventually result in constitutional changes to resolve the Karabakh problem. [redacted]

Despite Moscow's widely publicized efforts at improving conditions for the Armenians in Nagorno-Karabakh and the suggestions that an even better situation for them lies ahead, Armenian militants continue to press for reunification of the NKAO with the "mother republic." The Supreme Soviet decision to maintain the NKAO's affiliation with Azerbaijan seems to have further radicalized some of the militants, as calls for Armenia's secession from the USSR and expressions of dissatisfaction with Gorbachev in particular and his restructuring effort in general have increased. Continued manifestations of Armenian militancy will complicate the regime's efforts to resolve the issue and can only exacerbate Armenian First Secretary Arutyunyan's problems in balancing Moscow's demands for stability with those of the local population for change. [redacted]

*Azerbaijan.* Although more autonomy and responsibility would flow to Nagorno-Karabakh by raising its status, the region would, nonetheless, remain a constituent part of the Azerbaijan Soviet Socialist Republic and continue to be subject ultimately to Baku's authority. An indication of the extent of such authority is the fact that constitutionally no change in status of the enclave can be made without the permission of the Azerbaijan Supreme Soviet. The expansion of local economic competence in Nagorno-Karabakh—possibly the most significant benefit in achieving autonomous republic status—would still be limited by Baku's ability to suspend or nullify any decisions and orders of the Nagorno-Karabakh Council of Ministers that it deemed illegal or ill advised, according to Article 128 of the Azerbaijan Constitution. [redacted]

The retention of ultimate authority in Baku is an important component of the proposed compromise solution, since it would probably assuage to some extent Azeri concerns over appearing to yield to Armenian pressures. More important, such a solution would preserve the territorial integrity of the republic and thereby prevent any impugning of Azeri honor that would be involved in transferring the region to Armenia. Accepting a change in the NKAO's status might enhance Baku's relationship with Moscow and could be used to the advantage of the new leadership there to gain future concessions from the center concerning nationality or other pertinent issues. Azeri speakers at the June party conference indicated at least some willingness to consider a compromise resolution of the situation in Nagorno-Karabakh. Although Azeris gave little support at the Supreme Soviet session to any solution other than maintenance of the status quo for Nagorno-Karabakh, Gorbachev noted that it was an Azeri who had initially suggested elevating the NKAO to an ASSR as a way of ending the crisis, indicating that at least some Azeris favored the idea. [redacted]

*Moscow.* The Moscow leadership has a strong stake in settling the Nagorno-Karabakh issue on a more permanent basis. Continued unrest in the Caucasus poses a major threat to the authority of the party, and if the regime is ever to overcome the bitter alienation of the

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Armenian population produced by years of injustice and the regime's failure to resolve the ethnic dispute expeditiously, it will have to devise a solution that is not mere window dressing. The leadership in Moscow would clearly prefer a solution that conveys modifications in Nagorno-Karabakh's status within the context of overall Soviet nationality policy, rather than as concessions to a disgruntled ethnic minority. A three-stage approach of upgrading Nagorno-Karabakh to an autonomous republic, then improving the standing of all autonomous republics and other national entities and finally removing constitutional inequities among the nationalities and broadening their political and economic rights would seem to meet Moscow's criteria for a viable solution. Not only would this approach make acceptance of the NKAO's improved status more palatable to the Azeris, but it also would demonstrate Moscow's efforts on behalf of minority nationalities in general. [redacted]

If the upgrading of the NKAO into an ASSR succeeded in bringing the Caucasus unrest to an end, the regime would have demonstrated its capabilities in crisis management and in resolving longstanding problems. The success of the regime in handling a

thorny nationalities situation might partially restore confidence in the central leadership both locally and nationally. For Gorbachev and other reform advocates, such an accomplishment could be used to answer critics who cite the unrest in the Caucasus as a direct result of the democratization effort and indicative of the dangers contained in implementing Gorbachev's reform program too quickly. [redacted] 25X1

Formulation of a compromise solution that changes the status of the NKAO could, however, prove unpopular among those Russians who—whether they favor Gorbachev's reform program in general—would view a change in the NKAO's status as a concession under pressure to a minority nationality and therefore a diminution of Russian authority. Avoiding such a perception is important for the leadership, but an even greater danger is that the regime will continue to muddle through without offering a solution that ad- [redacted] 25X1 dresses longstanding ethnic grievances. [redacted] 25X1

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## USSR: Rethinking the Role of Investment [redacted]

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General Secretary Gorbachev and others in the leadership are having second thoughts about their initial investment strategy that emphasized rapid growth of investment and targeted heavy industry for top priority. Moscow now seems to have decided to restrict investment growth for producing sectors overall, while giving increased priority to consumer goods sectors, housing, and the agricultural distribution network. Reasons for the evolution of the leadership's views include emergence of a large budget deficit, disillusionment with the results of the early investment program, resource constraints, and increased recognition of waste of investment resources. [redacted]

The leadership's new views on investment are largely reflected in speeches, although some official statistics have been released indicating steps probably have already been taken. The announcement in late October of details of the 1989 economic plan and budget confirms the new investment stringency for producing sectors and the dramatic shift in leadership investment priorities. Thus, investment for housing and other social purposes is to increase 7.4 percent while investment for industrial and other production uses is to remain at "roughly the 1988 level." Meanwhile, we have seen evidence that the leadership is running into bureaucratic obstacles in setting its new investment priorities. [redacted]

### *The New Deemphasis of Investment*

Since the late 1960s investment policy has been at the center of attempts to move the Soviet economy to a development path that would substitute productivity increases for rapid growth in inputs. Investment growth, which had averaged 7 percent per year during the period 1971-75, was cut to half that rate in 1976-80 as Moscow sought to focus on retooling and reconstruction at the expense of new construction starts. However, the policy of restraining investment growth failed to achieve the hoped-for gains in productivity, and in 1981-85, after an initial low-investment growth plan was overturned, annual investment increases were again stepped up. Upon becoming

General Secretary in 1985, Gorbachev, with considerable effort, pushed through a plan for the 1986-90 period that called for investment growth higher than in either of the two previous five-year plans and for especially high growth in the first year, 1986. [redacted]

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Recent leadership speeches suggest that once again Moscow has doubts about the merit and feasibility of a fast investment-growth strategy.<sup>1</sup> The theme has been to refocus and reallocate investment resources in favor of production of consumer goods and services, not push for higher investment growth to accomplish leadership goals across the board. This was evident in Gorbachev's speech to the 19th Party Conference in June 1988 when he stated that housing investment had been increased by reducing capital investment on industrial construction. The speech of State Planning Committee Chairman Maslyukov to the Supreme Soviet session in October clearly reflected recognition of the need to check investment growth in industry and other producing sectors while supporting existing programs and undertaking new initiatives to improve living standards. [redacted]

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This most recent pulling back from a high-growth investment strategy reflects a number of motivations. Chief among them are financial constraints, disillusionment with the investment tool itself, resource constraints, and focusing on resource waste. [redacted]

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<sup>1</sup> We do not believe that total investment (investment for producing sectors as well as for services and housing) is necessarily being restricted, compared with the overall five-year plan target. The Soviet 12th Five-Year Plan called for a 23.6-percent increase in investment in 1986-90 over investment in 1981-85. This implies planned total investment of 1,042 billion rubles during 1986-90. The presence of inflation and unplanned investment in the achieved investment levels complicates any comparison between actual investment and the plan. Nevertheless, cumulative investment through 1988 will be about 620 billion rubles, suggesting that the five-year plan investment goal would be met easily even if there is no growth in investment in 1989-90. [redacted]

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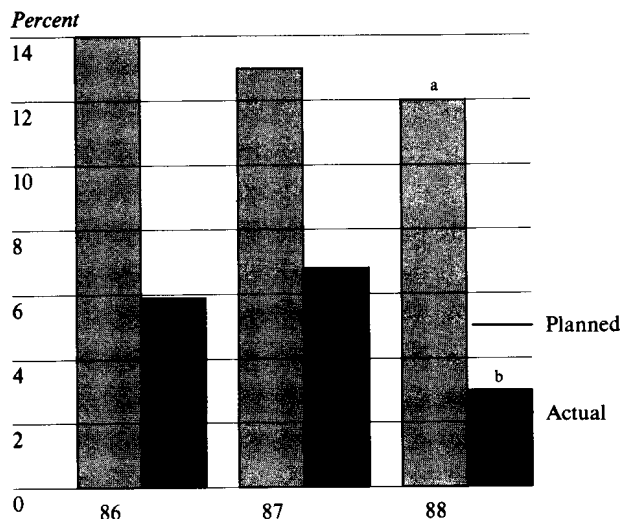
*Financial Constraints.* Tax losses from Gorbachev's antialcohol campaign, coupled with greatly increased state spending on investment since 1985, have intensified other negative fiscal trends and produced large budget deficits. Gorbachev stated in February that the economy's "serious financial problem" requires "enormous and extraordinary efforts." Speaking to a Central Committee plenum in July, he raised the possibility of a near-term decline in the level of investment as a means of cutting the state budget deficit.<sup>2</sup> [redacted]

*Disillusionment With the Investment Tool.* While investment in the Gorbachev era has been roughly on track with plans, the Soviets are doing poorly in bringing projects to completion (see figure 1). The commissioning of new factories has fallen short of plans, and there are many reports that the renovation of industrial facilities is behind schedule as well. Lack of results from the investment resources expended has led to disillusionment, and leaders are simply not touting the promise of heavy applications of investment resources as they did in 1985 and 1986. In a meeting in August with farmers in Latvia, Aleksandr Yakovlev, Politburo member and former party secretary responsible for propaganda, ideology, and culture, criticized the misplaced emphasis on investment that had been prevalent in 1985 during the early days of *perestroika* and implied that fresh approaches are required:

*A simplistic opinion prevailed: The more capital investment is provided, the better things will be. This did not prove to be the case. And now we are all discovering: machines are useless without man and his labor, and motivated labor at that.* [redacted]

<sup>2</sup> Under the new reforms, decentralized state investment financed at the enterprise level has become much larger while centralized investment financed by the state budget and other sources has declined. Gorbachev, however, almost certainly was not referring to centralized state investment as a target for prospective cuts, because, according to Soviet data, it already fell substantially in 1987 by 12 percent. He spoke as if a reduction was only under consideration. Therefore, he probably was referring to total state investment—centralized and decentralized. [redacted]

**Figure 1**  
**USSR: Growth in Commissionings of New Capital Assets**



<sup>a</sup> Estimated.  
<sup>b</sup> First nine months of 1988 compared with same period in 1987.

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*Resource Constraints.* Soviet resources have not expanded nearly as fast as called for in original plans. Growth of the economy through 1988 is running about 2.5 percent per year, substantially below the 4-percent annual rate targeted by the 12th Five-Year Plan. In particular, machinery output has been well below the pace needed to sustain the regime's investment plans. In 1987, the introduction of *gospriemka*, a new quality-control system, constrained machinery production severely. A relaxation of the defense effort could release resources for other uses, but so far there has been no slowdown in defense growth. [redacted]

Nevertheless, starting in the summer of 1987 and with increasing intensity, Gorbachev has repeatedly stated that improving the consumer's lot should be the top priority of the economy. In his address to the party conference in June, General Secretary Gorbachev implied that investment will be squeezed in the

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next FYP period (1991-95) in order to benefit consumption. So far the actual diversion of resources to improve the consumer situation has been focused on housing. However, the 1989 plan stipulates a 46-percent increase in investment for the food industry, a 60-percent increase for the meat and dairy industry, and a 30-percent increase in investment for retooling machinery and equipment in light industry, which is to include domestically produced machinery as well as an expected increase in deliveries of imported equipment. According to the plan, 134 million square meters of housing are to be built, which is 3.5 percent more than the 1988 plan called for and nearly 11 percent above the five-year plan target for 1989. [redacted]

**Focusing on Resource Waste.** The high-growth investment strategy has led to expansion of construction starts and waste of financial and material inputs. Finance Minister Gostev has stated that eliminating low-return expenditures is the business of "all zones and spheres of activity in the economy, and that neither departmental ambitions nor localistic interests can take precedence here." At a Council of Ministers meeting in October, Prime Minister Ryzhkov strongly denounced waste of investment resources in industry. As an example, he cited the Ministry of the Petroleum Industry and displayed photographs showing piles of pipe and unreclaimed scrap metal scattered in the Siberian tundra. [redacted]

**Targeting Waste: The Case of Farm Investment**

Although Gorbachev has for many years been critical of the wasteful use of investment resources in agriculture, over the last six months he and other Soviet officials have stepped up their attacks on such waste:

- In June, Gorbachev recited at the party conference a list of what he implied are nonsensical indicators of economic development, including the production of ever increasing numbers of inefficient agricultural machines. Writing in the journal *Kommunist* in June, editor Yegor Gaydar cited the agroindustrial complex<sup>3</sup> to illustrate wasted investment resources.

<sup>3</sup> Investment in the agroindustrial complex, which makes up about one-third of total Soviet investment, includes productive investment in state and collective farms—plus investment in rural housing, roads, communal services, agricultural service organizations, industries producing goods used in farm operations and food processing, fishing, specialized transportation, and enterprises of trade and consumer cooperatives. Investment in the complex was 58.9 billion rubles in 1985, 62.0 billion rubles in 1986, and 63.2 billion rubles in 1987. [redacted]

He points to large and unsuccessful water reclamation projects, the building of cattle "palaces," and rapid increases in procurement of substandard agricultural equipment.

- In his July plenum speech, Gorbachev was highly critical of the extremely low return on investment in agriculture. He pointed out that, since 1970, capital investments channeled into the development of agriculture amounted to 680 billion rubles, but gross agricultural output increased by only 25 percent. He cited the examples of Pskov and Novgorod Oblasts, where, over the past 17 years, gross agricultural output has declined 12 to 25 percent, even though the capital availability increased three to four times. Our analysis supports his pessimism (see figure 2). [redacted]

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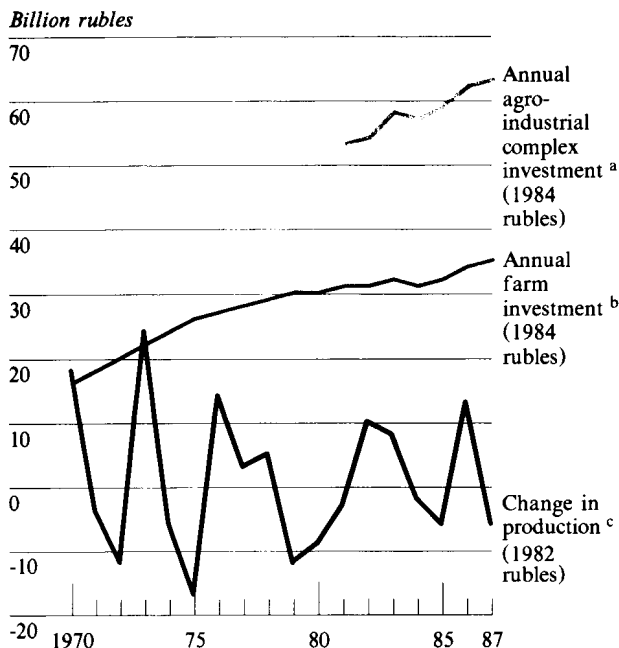
In July, Gorbachev explicitly rejected the view that future increases in agricultural output can be achieved through additional investment and new deliveries of resources. And in October, blaming the Soviet agricultural system for the low return on investment, he emphasized that the key to increasing agriculture production is leasing and other reform measures that increase farmworkers' economic incentives. And, indeed, there have been numerous indications that a downturn in investment in agricultural production is likely:

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- According to Vladimir Dolgikh, former Central Committee secretary for energy and heavy industry, production of grain harvesting combines was 14 percent lower in 1987 than in 1985. With obvious approval, he noted in a July *Pravda* article that some enterprises are abandoning overstated requests for material resources and are beginning to make more rational use of what they already have.
- According to Goskomstat's report on industrial performance for January through July, planned production of agricultural machinery was to fall 0.3 percent lower than that of the same period in 1987. This was the only machine category reported whose plan called for negative growth.

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**Figure 2**  
**Growth of Agricultural Production**  
**Compared With Investment, 1970-87**



<sup>a</sup> Annual figures for investment in the agro-industrial complex are not available before 1981. Those for 1985-87 are from the 1987 *Narkhoz*. Data for 1981-84 are estimated to accord with the definition in the 1986 *Narkhoz*.

<sup>b</sup> New fixed investment in machinery and nonresidential structures used in agricultural production (*Narkhoz*, various issues).

<sup>c</sup> CIA estimate of yearly changes in agricultural output.

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- In early August, Moscow radio reported that a giant new enterprise at Yelabuga in the Tatar ASSR, originally intended to produce tractors, had been placed under the USSR Ministry of the Automotive Industry and is to be used to manufacture small automobiles instead (see inset).
- On 1 September the Politburo halted construction of projects designed to irrigate large areas of land near the Aral Sea. Although the action is being taken ostensibly to further long-term ecological goals, it would have the effect of cutting back investment resources currently at the disposal of the

Ministry of Land Reclamation and Water Resources, which has recently been the target of high-level criticism for improperly managing its investment projects.

- Funds for a seven-year, 35-billion-ruble road development program in the non-black-soil zone will be obtained at the expense of land improvement and farm production equipment, according to a Soviet television report in August.

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The 1989 draft plan explicitly called for a reduction in agricultural investment. A 4 October article in *Izvestiya* reported that at a meeting of the Supreme Soviet commission preparing the 1989 plan for the agroindustrial complex, Deputy Gosplan Chairman Paskar stated that 32.1 billion rubles are to be allocated for the "development of agriculture" in 1989, which is a slightly lower amount than that in the 1988 plan.<sup>4</sup> Further, Paskar said capital investment in the agroindustrial complex would be 1.9 billion rubles less in 1989 than the five-year plan target for that year. The article noted a "tense silence" in the audience of largely local officials when Paskar delivered his report and cited a flurry of questions and rejoinders that followed it. In the end, the draft plan was sent back for reworking.

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**Establishing Priorities Under Investment Stringency: Signs of Confusion**

Allocating investment from the center is frequently cited as one of the key economic policy making tools available to the leadership under the Soviet system of central planning. This model of Soviet investment decisionmaking probably has always been too simplified, particularly in its implication that almost all power in this area rested in the Politburo. It is even more so now. There appears to be increased political infighting accompanying investment allocations, while ministries, local officials, planning authorities, and enterprises all play roles in the ultimate decisions.

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<sup>4</sup> This figure must refer to the agriculture sector of the economy. The sector comprises investment in machinery and nonresidential structures used in agricultural production—essentially productive investment in state and collective farms. Investment in this sector was 31.5 billion rubles in 1985, 33.5 billion rubles in 1986, and 34.4 billion rubles in 1987.

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### *The Yelabuga Project: Cars Instead of Tractors*

*In early August, Moscow radio announced that the Kama Tractor Plant at Yelabuga in the Tatar ASSR—under construction for about six years—has been put under the control of the Ministry of the Automotive Industry and will be used to make small cars instead of tractors. Automobile production is to come on line in stages, with the enterprise's full capacity of 900,000 cars a year to be reached in 1995. Ostensibly, this will support implementation of a recent Council of Ministers' resolution on increasing consumer goods production, which has called for annual production of cars to increase from the current 1.3 million to production of 2.3 million by 1995.*

*Construction of the giant tractor complex at Yelabuga has been a subject of controversy for some time. In a Novyy mir article in March, reform economist Shmelev called the plant "totally unnecessary" and cited it as an example of wasted budget expenditure. In January, Kommunist editor Yegor Gaydar condemned the construction of the tractor-building facility, citing its estimated construction cost of 3.8 billion*

*rubles—roughly equal to 6 percent of current total annual investment in the agroindustrial complex. He noted that the USSR produces very few inexpensive automobiles that middle-income citizens can afford and commented further that, in view of the acute imbalance in the consumer goods market, what should be taking place instead is a dramatic expansion of capacities to produce those goods.* 25X1

*It is apparent, nonetheless, that the decision was made abruptly, possibly during or in the aftermath of the July plenum. As recently as April, Deputy Minister Skrebtsov of the Tractor and Agricultural Machine-Building Ministry described the tractor plant project to Western businessmen and said it was part of the five-year plan's focus on improvements in agriculture. As outlined by Skrebtsov, the complex was to consist of six separate factories for the manufacture of tractor machine tools, fuel systems, diesel engines, turbochargers, a foundry and forge operation, and a tractor assembly plant.* 25X1

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Indeed we have seen a number of signs of contention and confusion in setting investment targets for the 1989 plan:

- Gosplan's call for a cutback in planned investment in the agroindustrial complex in 1989 met substantial resistance in the Soviet legislature and was remanded for further review. In his report to the Supreme Soviet in late October, Chairman of Gosplan Maslyukov indicated that, as a result, investment in the agroindustrial complex would increase in 1989 after all, primarily in the processing sectors. He added, however: "In order to supply the complex with capital investments, despite the extremely limited investment resources, we took the extraordinary step of channeling an extra 1.3 billion rubles into this complex via resources allocated from other sectors."
- In a recent televised meeting of the Council of Ministers, Prime Minister Ryzhkov rebuked the head of the Military-Industrial Commission for defense industry's failure to boost production of machinery for food processing in the past year. He warned that anyone who failed to join the program "is making a big mistake and life will put him right."
- Gorbachev has repeatedly indicated in his speeches during 1987-88 that increased production of consumer goods is the top priority of the economy. Yet in an October article in *Pravda*, the Minister of Light Industry complained that the draft 1989 plan calls for a small reduction in the investment allocation to his industry. Now, according to Maslyukov

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*Figure 3. The Yelabuga plant, 24 July 1988. As part of a shift of investment resources toward consumer goods production, this huge plant under construction at Yelabuga in the Tatar ASSR is to be used to produce compact cars instead of tractors for agriculture.*

[redacted]

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speaking to the Supreme Soviet in late October, light industry is slated to receive a 30-percent increase in equipment.

commission on agriculture, this reduction was overturned, and the final plan now calls for a slight increase in the supply of tractors over 1988. [redacted]

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- Gorbachev has acknowledged that there are not sufficient resources to modernize all civil machine building at once and has taken steps to refine and refocus the modernization strategy. The Soviet leadership recently directed the machine-building sector to step back from its across-the-board effort and to focus on 44 priority areas, many of which emphasize the quality of life. While investment in the machine-building sector grew 12 percent in 1986, growth in 1987 was 1.1 percent, according to the recently published statistical handbook for 1987.
- Maslyukov reported in his closing speech to the Supreme Soviet that the original 1989 draft plan called for a 10-percent cut in the supply of tractors to agriculture. Apparently in response to protests from deputies on the Supreme Soviet planning

This contention probably reflects Gorbachev's problem in transferring more resources to consumer sectors (including critical agricultural needs such as distribution and storage) perhaps because of disagreement in the leadership and bureaucratic inertia. Although we have no direct evidence of a guns-versus-butter debate in the leadership, it is likely that Gorbachev's new emphasis on satisfying the consumer encountered some resistance from those in the Politburo who represent the interests of heavy and defense industries. If so, defense ministries would be reluctant to make a serious commitment to supporting consumer sectors. The recent leadership shakeup appears to reduce the influence of this latter group and could lessen both political and bureaucratic obstacles to spending for consumer needs. [redacted]

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Another source of increased contention in investment decisions is Gorbachev's reforms. One of the key elements of his political reforms announced last June, for example, is a devolution of authority to republic and local legislatures. As these officials have a greater say in the investment area, the center will have less influence. This seems clearly illustrated in the final decision to send more resources to the agricultural processing sectors in 1989 following a review by a legislative commission, despite Gosplan's initial attempt to cut back investment in the agroindustrial complex. Similarly, the economic reforms call for enterprises to retain more of their profits and use them for investment. According to Gosplan Deputy Chairman Leonard Vid, enterprises have increased their share of financing of state capital investment from 3.2 percent in 1986 to 38.4 percent in 1988. Yet leaving more resources in the hands of enterprises to make their own investment decisions clearly will weaken central control.<sup>5</sup> [redacted]

Gorbachev probably will be successful eventually in establishing a new investment program that emphasizes the consumer, but squeezing investment in other sectors, including heavy industry, could jeopardize prospects for meeting vital production targets. In 1975, Moscow made a decision to sharply curtail investment growth but overlooked the severity of its investment requirements in energy, other basic raw materials, and railroads.<sup>6</sup> As a result, the economy found itself short of critically needed resources and industrial growth slipped substantially. Gorbachev may be risking a similar scenario unless current planners are more effective in coping with resource stringency. [redacted]

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<sup>5</sup> Given the huge increases in this share in such a short time frame, it is not clear that enterprises have also gained comparable shares of control over equipment and construction. [redacted]

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### Moscow Urges the African National Congress To Focus on Political Struggle [redacted]

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The Soviets continue to promote the African National Congress (ANC) as the main player in the struggle against the current apartheid regime in South Africa, but they appear to have shifted their tactics on how to conduct this struggle. They apparently calculate that a violent overthrow of the regime is unlikely in the near future and that the ANC must complement its military actions with greater emphasis on political tactics with a view to securing a negotiated solution. Moscow evidently believes that the ANC should adopt positions that have a broader appeal and should increase its diplomatic efforts to bring domestic and international pressure on Pretoria to move toward negotiation with the ANC. However, Moscow still believes that the ANC should continue its military pressure against the government. [redacted]

negotiated solutions. It also has emphasized the need to start and sustain regional negotiations even if the positions of key actors are far apart. The Soviets believe that this policy will help them eliminate regional conflicts as an issue with the United States, reduce the burden of supporting clients in light of their greater concern for their domestic economic problems, and promote a less threatening image internationally. [redacted]

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#### Moscow's "Old Thinking" . . .

Moscow's position since at least the early 1960s had been that the best way to advance Soviet interests in South Africa was to support the ANC's campaign of armed struggle and to advocate the violent overthrow of the South African Government and its replacement by an ANC-dominated, pro-Soviet regime. [redacted]

In line with this approach, the Soviets seem to have reevaluated their view of how change can come about in South Africa. They apparently now conclude that a violent overthrow of the current regime is unlikely and that the ANC must put greater emphasis on political tactics—though not abandoning its military actions—with a view to securing a negotiated solution. They now seem less concerned that a peaceful elimination of apartheid could proscribe Soviet influence in a postapartheid South Africa. Last year General Secretary Gorbachev publicly supported the idea of eliminating apartheid by political settlement. However, the Soviets stipulate that any negotiations between the ANC and South African Government must be acknowledged openly and, thus far, have continued to support the ANC's conditions for opening formal negotiations. These conditions include releasing all political prisoners, lifting the state of emergency, withdrawing troops and police from black townships, and ending the ban on the ANC. [redacted]

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[redacted] the Soviets apparently believed that widespread violence would provoke counteraction and mass repression by the South African Government, which in turn would contribute to the polarization and politicization of the masses. They also believed that violence would disrupt the economy, lead to disinvestment by Western companies, and ultimately promote the collapse of the South African regime. One of Moscow's major concerns was that gradual reform and peaceful elimination of apartheid would reduce the likelihood that the ANC—and the South African Communist Party—would seize power. [redacted]

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#### . . . Some "New Thinking"

In general, Soviet "new thinking" on the Third World under Gorbachev has stressed the need to use political means to resolve conflicts whenever possible. According to various press and diplomatic reporting, Moscow has tried to convince its clients of the desirability of

The Soviets apparently believe that meaningful change in South Africa will not occur in the short term. Although they have publicly stated that a regional settlement on Angola and Namibia will improve prospects for the elimination of apartheid in

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**The South African Communist Party**

*The South African Communist Party (SACP)—founded in 1921, outlawed in the early 1950s, and headquartered in London—is of all Third World Communist parties among the most loyal to the USSR and takes its cues on policy from Moscow. Although the majority of members are black, the party is dominated by English-speaking whites and Asians. The SACP has a considerable degree of influence in the African National Congress (ANC) that stems from SACP representation on the ANC's ruling National Executive Committee as well as the ANC's dependence on the Soviet Bloc. Ties were formalized in an alliance in 1969 of the three revolutionary "pillars of the liberation struggle": the ANC, the SACP, and the SACP-controlled South African Congress of Trade Unions (SACTU). Recognizing that a socialist revolution is not at hand in South Africa and that the SACP is a weak Communist party with a limited following inside South Africa, the Soviets advise the SACP to work within the ANC, in cooperation with non-Communist elements, to change the governing system. The ANC is not directed by the Soviet Union, however, and non-Communist nationalists remain in the ascendancy.*

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South Africa, several accounts indicate that Soviet Foreign Ministry and academic specialists on Africa estimate that ending apartheid could take 10 years or more. Joe Slovo, Secretary General of the Moscow-dominated South African Communist Party (SACP) and the only white member of the ANC's National Executive Committee, earlier in 1988 said that it is impossible to defeat South African security forces in the immediate future and, therefore, it is necessary to use a combination of political and military activity to bring about a "revolutionary transformation" of South Africa, [Redacted]

[Redacted]

The new Soviet stance also appears to reflect a change in the Soviet view of the utility of disrupting the South African economy. While the Soviets probably would benefit from a disruption of South African

production of gold and strategic minerals, they almost certainly do not want to support another African "basket case" that would look to the USSR for long-term economic assistance. In contacts with US academics and officials during 1988, Soviet academics have suggested that peaceful change, which would preserve South Africa's economic base, rather than revolutionary upheaval, is in the interest of all sides concerned. Moscow has also cautioned the ANC that a postapartheid South Africa should not experiment with extreme versions of a socialist economy as have other African countries, [Redacted]

[Redacted]

The Soviets also support a broadening of ANC contacts with other black South African opposition groups and white South Africans. Soviet media commented favorably, for example, on a meeting of ANC members with moderate Afrikaaner businessmen, white Liberal members of Parliament, and writers from South Africa in Senegal in July 1987, which they called a step toward improving the ANC's international image and increasing international support for the ANC. According to the US Embassy in Lesotho, Soviet Foreign Ministry Africa specialist Boris Asoyan noted that, while the ANC is an important political force in South Africa and is the only organization that represents "all of South Africa," it is not the only organization commanding the allegiance of South African blacks. The Soviets have argued, for instance, that the leader of the Zulu organization Inkatha, Chief Buthelezi—who they believe is supported by a majority of the country's 6 million Zulus—cannot be ignored politically, [Redacted]

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Soviet policy toward the ANC will be affected by Moscow's own interactions with and perceptions of South Africa. Moscow continues to distrust South Africa's stated intention resulting from US-mediated negotiations among Angola, Cuba, and South Africa to implement UN Resolution 435 on Namibian independence. If Namibian independence is achieved, the Soviets may conclude that the South African Government can negotiate in good faith and may urge the ANC to propose negotiating initiatives to step up the pressure on Pretoria to resolve the internal political situation in South Africa. If, however, Pretoria stalls or reneges on the implementation of Resolution 435 or if South Africa cracks down on internal opposition to show it is still tough on the issue of white security, the Soviets may calculate that it is fruitless to negotiate with Pretoria and that an intensification of ANC attacks on the South African regime is the only remaining path to follow.



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## Notes

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### Update on Cooperatives

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Soviet press reports indicate that the cooperative movement grew between January and July 1988 and that it has caught on more readily in areas with a tradition of private initiative. This growth will probably continue, perhaps more rapidly, through 1988 because the progressive law on cooperatives became effective in July 1988. Despite these gains, the relative contribution of cooperatives during 1988 to improving the quality and availability of goods and services will remain small.

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According to the USSR State Committee on Statistics, during the first half of 1988 the number of cooperatives more than doubled to over 32,000 and the number of people employed by them tripled to more than 450,000 or roughly 0.2 percent of the population. In addition, during the same period, sales of goods and services to the population by cooperatives were three times as great as for all of 1987. These gains probably can be attributed to publication in March of the draft law on cooperatives. In a *Pravda* article (March 1988) the owner of a cooperative restaurant in Moscow asserted that local authorities had become much more willing to assist him once the draft law was published.

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Thus far, cooperatives appear to be developing more rapidly in regions with a tradition of private initiative. As of 1 July 1988, among the 15 republics, the highest percentage of the population employed by cooperatives was in Estonia, roughly 0.8 percent; followed by Armenia and Latvia, about 0.4 percent; and Georgia, Moldavia, and Lithuania, about 0.3 percent. In contrast, only about 0.2 percent of the population of the Russian Republic was working in cooperatives.

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The implementation of the July law on cooperatives could give an even larger boost to this movement during the second half of 1988. While the law and subsequent legislation restrict the freedom of many cooperatives in setting prices, the law bolsters the legal and ideological legitimacy of the cooperatives, loosens eligibility requirements for joining them, expands the scope of their activity, and increases financial incentives for local authorities to support them. In addition, in July the

<sup>1</sup> A cooperative is a business organized by at least three individuals who run the operation collectively with greater independence than state firms and share the profits.

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Presidium of the Council of Ministers substantially reduced tax rates on the income of cooperative members. The high rates, in effect since March 1988, were widely criticized by reform economists and cooperative members as strong deterrents to the cooperative movement. [redacted]

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Despite the increased pace of implementation, official statistics suggest that for all of 1988 cooperatives will account for less than 1 percent of the total sales of goods and services sold to the population. Even this small percentage may overstate the net contribution of cooperatives to the economy, because many such businesses have been formed from unprofitable state enterprises. [redacted]

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### Soviet Interest in the Caribbean [redacted]

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Recently Moscow has made limited attempts to strengthen its ties to the governments and non-Communist political parties of the Caribbean while continuing to maintain ties to Communist political groups in the region. Moscow's new approach in the Caribbean is in line with its more activist policy toward Latin America, although the island nations have a lower priority in light of their small size and relative lack of strategic importance. The Soviets' principal objective in the Caribbean is to convince the governments to view the Soviet Union more favorably and to follow a foreign policy that is less dependent on the United States. Also, they hope that strengthened ties to the left-of-center parties in the region will pay off in better bilateral relations when and if these parties come into power.

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In recent months Moscow has made low-key overtures to the governments of the Caribbean region. The most visible was the tour in April 1988 of a delegation from the Supreme Soviet to Guyana, Trinidad and Tobago, and Jamaica, which attracted moderate media attention in the region. The Soviets met with top government officials to discuss bilateral relations and air Soviet positions on various international and regional issues, most notably Soviet views on disarmament and the Central American peace plan. In September 1988 Moscow demonstrated its interest in strengthening bilateral ties to the Caribbean countries by conducting consultations with Jamaica and the Dominican Republic on the 43rd UN General Assembly agenda. The Soviets undoubtedly used their visit to Santo Domingo to step up their longstanding efforts to establish diplomatic relations with the Dominican Republic. [redacted]

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[redacted] Moscow continues to maintain close ties to and give financial support to regional Communist parties. However, there are indications that the Soviets are apparently urging them to deemphasize violence and use political, rather than military, means in pursuit of power. [redacted]

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[redacted] the Soviets have supported a revision of the party philosophy of the Worker's Party of Jamaica that deemphasizes the role of force and coercion.

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[redacted] the East Germans have criticized the Dominican Communist Party for espousing violent revolution, and it is likely that this criticism reflected Soviet views. [redacted] not all

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Caribbean Communist leaders favor such changes in philosophy and tactics, and some have criticized Moscow for being preoccupied with relations with the West at the expense of its support for Third World Communist movements. [redacted]

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The Soviets are seeking to strengthen their relations with Caribbean trade unions and expand links beyond those to the few traditional Communist parties in the region by broadening their contacts with left-of-center social democratic parties and trade unions. [redacted]

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[redacted] This year Soviet scholarships, through the Progressive Trade Union Center of St. Vincent, were offered for the first time to students from St. Vincent, and the Soviet Embassy in Kingston offered four new scholarships to the Labor Party of Dominica, which, when assigned, would increase to nine the number of Dominican students studying in the USSR. [redacted]

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Ironically, as Moscow moves to bolster its relations with left-of-center political organizations in the Caribbean, the foremost leftist-leaning politician of the region, Michael Manley, head of Jamaica's People's National Party (PNP) and noted for his warm relations with the Cubans and Soviets during his tenure in power, has appeared to distance himself from the Soviets. As the Jamaican election approaches, Manley has taken steps to isolate certain members of the PNP who have close Soviet links, [redacted]

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[redacted] Manley has a poor relationship with Vladimir Aleksandro- vich Romanchenko, the Soviet Ambassador to Jamaica, and Soviet diplomats have relatively few contacts with mainstream PNP officials. Manley's apparent movement away from the Soviets may not indicate an actual change in his views regarding Jamaican-Soviet relations, however. He simply may be following an expedient path in the face of the coming election. In any case, the Soviets are not giving up in their efforts to retain their traditionally strong ties to the PNP. For example, a delegation led by senior CPSU officials planned to attend the recent 50th PNP conference in September 1988, but the conference was canceled because of Hurricane Gilbert. A Manley victory in the Jamaican election would undoubtedly please the Soviets and possibly enhance their position in the country somewhat. [redacted]

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The results of Moscow's efforts have so far been negligible. Since early 1988 there has been a slight warming in Jamaican-Soviet relations, which have been very cool since the government of Michael Manley gave way to that of Edward Seaga in 1980. Disputes over the terms of a contract concerning the Soviet purchase of Jamaican bauxite have been settled, and, according to a Jamaican press report, Prime Minister Seaga has asserted that *glasnost* and *perestroyka* have allowed for improvements in Jamaican-Soviet relations. On the other hand, the Dominican Republic has thus far rebuffed Soviet attempts to establish an embassy in Santo Domingo, despite the stronger economic links between the two countries. [redacted]

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The Soviets are probably optimistic about the long-term prospects for increasing their influence in the Caribbean. Caribbean leaders have expressed frustration with Washington over US trade policies, and Moscow probably calculates that they are likely to view the Soviet Union more favorably as a potential trading partner in the future, especially if Moscow's efforts to convey a less-threatening image to the governments and mainstream political parties are successful. If Manley and other left-of-center politicians come into power, Moscow will probably find more sympathy for its views on disarmament and regional issues. The Soviets are likely to continue to support radical political organizations in the region, but it is possible that such support would be contingent upon their following a predominantly political, rather than violent revolutionary, path. [redacted]

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**Unrest Continues To Grow Despite Rules Against Demonstrations** [redacted]

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In the third quarter of 1988 we noted over 200 cases of unrest in the USSR, the highest quarterly figure since the unrest data base was established in January 1987. This indicates that a two-year trend of increasing incidence of unrest continues unabated. Although unrest activity appeared to be leveling off in July and early August 1988, an explosion of large-scale demonstrations sparked by nationalist demands in the non-Russian republics in late August and September, coupled with increased activity among unofficial groups in Leningrad and Moscow, contributed to growth that was at least 13 percent greater than that of the preceding quarter. [redacted]

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Decrees on demonstrations that were issued in late July at the national level and in all union republics did not prove immediately effective in curbing the activities of unofficial groups. Incidents of unrest in Leningrad, for instance, doubled from July to August, despite the harsh application of the new rules. Authorities enforced the decrees to varying degrees, depending on the group. The Democratic Union, which clearly opposes the Soviet system, was constantly harassed, but other groups, such as Pamyat, were more successful in subverting the rules. In all, 63 percent of the August incidents in Leningrad were broken up by officials, and many other events were thwarted by a show of force on the street and by threats of fines and imprisonment to participants. We have noted only five demonstrations in Leningrad during September 1988, which suggests the authorities may now have the situation under tighter control. [redacted]

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Since late 1987 large-scale nationalist demonstrations have overshadowed all other types of unrest activity. During the third quarter of 1988, about 85 percent of the large demonstrations involving at least 1,000 people were nationalist demonstrations outside the RSFSR. These events account for 33 percent of all incidents of unrest during the period. [redacted]

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There was a brief lull in nationalist activity in the Caucasus and the Baltic following the decrees, but multiple demonstrations held throughout the Baltic on the anniversary of the Molotov-Ribbentrop Pact shattered the calm. In September

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an outbreak of violence between Armenians and Azeris on the outskirts of Nagorno-Karabakh sparked the third major phase of unrest in the Caucasus. The decrees only had an incidental effect on curbing nationalist demonstrations. Members of the Karabakh Committee were fined for organizing illegal demonstrations, but, because the support network for this group is strong, it is unlikely that the fines caused them any financial hardship. In the Baltic, groups avoided punishment by staging daily "flying demonstrations" that lasted only a few minutes before dispersing. Moreover, the Chairman of the Estonian Supreme Soviet Presidium has gone on record as opposing the decrees, indicating that many local officials in the Baltic might be unwilling to apply them.

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