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THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN
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INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT *BS*
SUBJECT: Developments in the USSR

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PER E.O. 13526
2000-1202-F/2
SCS 412612

Today's decision by the Congress of People's Deputies to step aside in favor of an interim bicameral legislature giving a dominant role to representatives of the republics concludes the first phase of the revolution triggered by last month's failed coup. The major decisions now seem to be made, and the next few months will be devoted to finalizing them in a new union treaty and constitution which formally create a voluntary union of probably ten republics (Moldova and Georgia seem certain to opt out).

From the U.S. perspective, several parts of this unfolding revolution deserve particular attention:

- The course of the struggle between Gorbachev and Yel'tsin for influence over the new Union. Gorbachev has, through sheer determination and political skill, carved out a role for himself in the new union, although his power and authority are greatly diminished since you saw him in Moscow.
- The role of the new center, whose legitimacy and powers flow solely from the republics. In particular the role of Russia will be key. Whether or not a strong center can be maintained, particularly in defense and foreign policy, will have a key effect on our ability to carry out a normal bilateral relationship.
- The political, social and economic situation of the republics -- particularly Russia, Ukraine, Kazakhstan -- whose leaderships can no longer blame the economic crisis on the center they destroyed.

Gorbachev and Yel'tsin

Yel'tsin's popularity and influence, on the rise since Spring 1990, were obviously boosted by last month's events. But he made several mistakes in the first days after the coup by moving too quickly and openly to put Russians in control of the Union. Before the coup, under Yel'tsin's leadership Russia had for some time moved subtly but unmistakably to infiltrate union

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cc: Vice President
Chief of Staff

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institutions, which was already causing some discomfort, particularly in the Asian republics. But Yel'tsin's attempt at what looked almost like a "second coup" during August 22-24 -- where he dictated a provisional union government to Gorbachev composed solely of Russians -- combined with his warning on borders to Kazakhstan and Ukraine that they could not depart the Union without leaving behind the Russianized portions of their republics, frightened other republican leaders.

This gave Gorbachev the opening he needed to create a new constituency, primarily in the non-slavic republics. Gorbachev was already working in this direction before the coup, something which was quite apparent in the prominence Gorbachev gave Kazakhstan's Nursultan Nazarbayev during the Moscow Summit. Since the coup, Gorbachev has subtly played on other republic leaders' fears of Yel'tsin to develop support for separate economic and political unions, both of which have now been agreed to by the Congress of People's Deputies. Yel'tsin has gone along with this, even supported it, apparently because he still believes Russia needs some form of loose association with other Soviet republics, and because he also admits the continued usefulness of a center.

Ukraine is the wild card in this. Both Yel'tsin and Gorbachev feel that Ukraine must stay in the Union. It is a huge economy tightly integrated with Russia, and an abrupt separation would be disastrous. Kravchuk may agree, but his political situation is tenuous, and Ukrainian independence is the one cause uniting virtually all political factions in that republic. It is likely in the end that Kravchuk will not win the key December elections, but that Ukraine will stay in the union, primarily as a way to try to control Russia.

In the weeks to come Gorbachev and Yel'tsin will most likely continue to work together, but also to jockey for position by playing to their respective constituencies -- Yel'tsin to Russians; Gorbachev to other republics. The other lever Gorbachev has on Yel'tsin is the sixteen autonomous republics in Russia, most of whom seek independence from Russia. Notice that in the final version of the interim arrangements agreed to today Russia received 52 seats in the new body representing the republics, while all other republics only received 20, but the extra seats are there explicitly to give representation to the autonomous republics within Russia.

If Yel'tsin should lose his taste for the union, he could decide to give up on Gorbachev. Gorbachev will then lose much of his constituency, since his main value is to keep Yel'tsin in check. Such a scenario would lead to uncontrolled disintegration. But so far that seems an unlikely outcome. Both Yel'tsin and Gorbachev, for much different reasons, seem content to work together for this new union. It is very much in our interest that they do so.

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The Role of the New Center

There will be a center in this new union, and it may turn out to be fairly powerful in areas of most concern to us: defense and foreign affairs. The republican leaders seem to understand that an army under centralized operational control, but with effective oversight by authorities chosen by the republics, makes the most sense. Certainly such an arrangement reassures the outside world. Also certain is the fact that republic-based armies would create huge defense burdens on republics who need to maximize the resources they devote to economic development, as well as creating a very real threat of replicating Yugoslavia's tragic course.

Foreign affairs will be more complicated, for them, and for us. Over the last year Russia has been moving to infiltrate the union foreign affairs bureaucracy, and Yel'tsin seemed basically satisfied with the results. Now Russia will want more, as will other republics. The "one plus ten" statement to the Congress of People's Deputies even suggested that each republic could join the UN, implying (probably without knowing it) that each republic would become de facto a sovereign state.

We will probably find over time that there is still a union-level foreign policy, and that we will deal on the major issues with the Union's foreign minister. But we will also almost certainly see changes in Soviet foreign policy as the republics assert their right to influence the agenda. Aid to client states will most likely collapse, and soon. An aggressive arms control stance, favoring dramatic reductions in arms and a halt to nuclear testing, seem increasingly likely.

A new union treaty will probably give the republics the right to conduct their own official relationship with foreign countries. That means we will come under increasing pressure to establish direct diplomatic and economic ties with republics. On most lower-level diplomatic issues -- visas for example -- we may find that we are dealing primarily with republics.

In the economic area the republics are now getting the autonomy they have long sought. Each republic will now effectively control its own resources, the enterprises on its soil, its foreign commerce. The envisaged economic union will most likely be a loose one, devoted primarily in what will probably be a vain attempt to head off protectionism and "beggar-thy-neighbor" policies. There will probably be an attempt to retain a single currency and to enforce a tight monetary policy, but both seem unlikely outcomes. It is very likely that the leaders of the republics, individually and collectively, will choose to print money and tolerate inflation, in a vain attempt to avoid unemployment. The best we can do in this situation is to push hard for the new union and its constituent republics to engage with the IMF and the World Bank in drawing up economic programs which attempt to head off that inflationary spiral. This should be one of our key emphasis as we talk to Soviet and republic leaders.

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This arrangement seems almost guaranteed to lead to a dramatic fall in defense expenditures. The 500-Day Plan which Yel'tsin and Gorbachev worked out in Summer of 1990, which Gorbachev subsequently rejected, called for a system much like they now have adopted. One of the most striking provisions of that plan was that defense expenditures for the Union would be determined by the size of voluntary contributions from the republics. The new system basically works that way, which surely means defense expenditures will fall. But how rapidly they will fall depends on how republican leaders, particularly in Ukraine and Russia, react when they discover that declining defense expenditures mean increasing unemployment in their biggest factories. This is why it is so important for us to work closely with the Soviets on defense conversion.

The Political, Social, and Economic Situation in the Republics

In this new world it will be much more important than in the past for us to be aware of political, economic, and social conditions in the republics. In the past a republican leader's position on key issues was determined by Central Committee staff in Moscow. Now it will be determined in the ballot boxes, and in some cases on the streets, of his republic. Kravchuk's position on Ukraine's participation in the Union will depend on the politics of the Ukraine, which could be much different than the politics of the Union.

As in the past, economic considerations will dominate politics for the foreseeable future. Having destroyed central power, the republican leaders have also eliminated their best excuse for the terrible economic conditions in which their constituents live. Now they will have to move quickly to show results. Despite the rhetoric supporting markets and democracy, it is not at all clear that all republic leaders, or any one leader at all times, will stick to a market-based, democratic, development strategy. They will find, as Gorbachev has, that it is terribly tempting to resort to central commands as an interim solution.

This is where active engagement by individual countries and international institutions, particularly the international financial institutions (IMF, World Bank, EBRD) targeted directly at republics, can make a difference. This revolution is very much a victory for those who seek to integrate into the global system, and a defeat for those who feared western influence. The fluidity of the situation, and the search for a model, gives us now more influence than we have ever had in the Soviet Union. The issue for us is if, and how, we choose to use that influence.

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