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The International Institute for Strategic Studies

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# STRATEGIC SURVEY 1989-1990



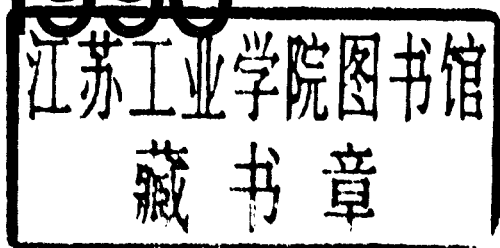
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**I I S S** 

# STRATEGIC SURVEY 1989-1990



Published by **Brassey's** for

**THE INTERNATIONAL  
INSTITUTE FOR  
STRATEGIC STUDIES**

23 Tavistock Street  
London WC2E 7NQ

# **STRATEGIC SURVEY 1989-1990**

Published by Brassey's for  
The International Institute for Strategic Studies  
23 Tavistock Street, London WC2E 7NQ

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This publication has been prepared by the Director of the Institute and his Staff, who accept full responsibility for its contents, which describe and analyse events up to late March 1990. These do not, and indeed cannot, represent a consensus of views among the world-wide membership of the Institute as a whole.

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# Perspectives

During the past twelve months, the basis of the world's geopolitical structure has been radically transformed. Within an incredibly short time successive revolutions in Eastern Europe wrested one country after another from the grip of communist rulers, and national and social tensions frayed the fabric of the Soviet empire. These momentous events overturned the political and security arrangements that have existed since the end of the Second World War and brought into prospect a real moderation of, if not yet an end to, the East-West confrontation.

Although the 'revolution of 89' occurred principally in Eastern Europe, its shock waves are global in reach and their effect is far from spent; indeed, some areas, such as North-east Asia, have yet to feel the full brunt of the tremors. The framework that lent predictability to existing alliance relationships, both in the East and the West, has crumbled leaving an instability that will not be easy to overcome, for the speed with which events are racing towards a but dimly discernible culmination makes understanding difficult and prediction impossible. The only certainty is that of continuing uncertainty, from which a new form of international relations will eventually emerge.

The greatest instability of all is in the Soviet Union. The revolution from above, which General Secretary Gorbachev launched five years ago in an effort to transform Soviet social, political and economic life, threatens to turn into a revolution from below which might have the same effect in the USSR as similar ones had in Eastern Europe. Conservative forces would clearly like to turn Gorbachev out of office, slow the economic reforms, and call a halt to the political changes now under way. That conservatives have not yet tried to do so may be partly because they cannot agree on an alternative programme with any more chance of success than the one Gorbachev is valiantly trying to put into place.

While the Western Alliance does not face the same burden of problems, it must adjust, with greater rapidity than its members would like, to the changes that have at least called into question and arguably undermined its previous *raison d'être*. The Warsaw Pact has ceased to exist as a functioning military alliance, and it is doubtful whether as an institution it will long survive the departure of East Germany from its ranks. Even before elections in Hungary and Czechoslovakia brought truly democratic regimes to power, each country had asked for a withdrawal of all Soviet forces and each had received assurances from Moscow that they would be gone before the middle of 1991. Were it not for its fear of the impact of the integration of West and East Germany into a unified state, Poland, too, would ask for the removal of Soviet troops. The ebbing of the threat from the East and the imminence of the unification of Germany, require an immediate adjustment in the security arrangements that exist in Europe today. Fortunately, all Western

governments have recognized this, for without that recognition the difficult task of agreeing on and developing mechanisms to replace those that have been so successful for the last 40 years would be an impossible one.

### **Many Questions, Few Answers**

There is little question that the Soviet Union remains the key to the adjustments that will have to be made. One major difficulty, however, is that events in the USSR have spun so far out of control that there can be no certainty of what the country will look like when, and if, it finally stabilizes. But whatever the end result, the profound changes now under way are certain to last many years, and will oblige the country to continue to look predominantly inwards. Present Soviet willingness to compromise on arms-control matters, and even on the fundamentally important German question, clearly points to a recognition by Soviet leaders that they must not only avoid confrontation with the West, but must actually reach out for Western support. With the future of Germany (and hence of Europe) as well as the future of the USSR in full flux, we are left with many unanswered questions.

Will Gorbachev be able to ride the tiger he has unchained? Can he speed up political and economic change sufficiently to keep step with the rapidly evolving social and national realities of the USSR? The February 1990 Central Committee meeting endorsed his proposals to drop constitutional references to the leading role of the Communist Party, to move to multi-party elections, and to establish a strong executive presidency, a position tailor-made for Gorbachev. Implementation required the further endorsement of a Party Congress and of the Congress of People's Deputies. The Party Congress was originally intended to meet in February 1991, but, as Gorbachev said, to wait that long would be impossible and 'could finish off the country'; thus he advanced the meeting date to October 1990, and then to early summer 1990. Even this was not soon enough. He felt it was necessary to put the key decision that affected the administration (that of the executive president and the organization of the elections) on the agenda of the Supreme Soviet and a hastily called special session of the Congress of People's Deputies. At that Congress Gorbachev was elected to the newly-formed and very powerful executive presidency. Even so, whether there is still sufficient time to adapt political objectives and institutions to the swiftly evolving situation remains moot. And there can be no assurance that the new position, and the way in which it will be used, will gain sufficient legitimacy to prevent an intensification of the struggle over policy and power that is now under way.

To construct a democratic government – or even something resembling one – in a country with no democratic traditions is a daunting task under the best of circumstances. To move from a centrally planned economy to something resembling a market economy is an equally Herculean task (it has been likened to unmaking an omelette). In a

country ripe with nationalist conflicts and rising expectations, and with an underdeveloped and tottering economy, these tasks look impossible. Forces have been unleashed in the Soviet Union which pose awesome obstacles to the exercise of idealism; ethnic feuds and suspicions are being fed by a number of extremist groups and some charismatic personalities. It looks more and more likely that – for better or worse – this is more the hour of the clever tactician than of the democrat.

Even if Gorbachev's gamble succeeds and his reforms finally begin to work, much time will be required before the Soviet people derive any real benefits. But patience may be running out. The introduction of even partial market mechanisms will inevitably result in more, not less, hardship for some time to come. Whether the Soviet people will be willing to accept this, particularly if the distribution of wealth should become even more visibly uneven in the process, is highly uncertain, to say the least. The public's revulsion against 'acquisitive' co-operatives, and the leadership's capitulation to public pressures on this score, are not a reassuring omen. The attraction of extreme positions, offering apparently easy answers, may grow.

Perhaps most worryingly for the Kremlin, the very existence of the Soviet Union within its current borders is in question. The Caucasus is in flames; Central Asia, with all too many shared features with pre-independence Algeria, is close to boiling point; the Baltic states have already left the Union in outlook and political objectives; and nationalist feeling is escalating in the Ukraine. There are schemes to transform the USSR into a confederation of sovereign republics (with more or less abstruse legal mechanisms for the exercise of the right to secede from the confederation). These schemes, however, may not go far enough for many national minorities, while going too far for many Russians and conservatives. Although designed to defuse the danger of civil war, these plans could all too easily deepen the divisions in the country and promote what they are meant to prevent. Yet the most perplexing of all the dilemmas facing the USSR may be that all other options are less attractive.

Finally, there are clear inconsistencies in Gorbachev's programme. Although he pushes for more democracy and seems willing to compromise on everything except, possibly, the territorial integrity of the USSR, he claims that it is necessary to acquire much more personal power to achieve greater democracy. Gorbachev seems to believe that an enlightened autocratic leadership is the only near-term answer to the problems besieging the Soviet Union. He may be right; yet others, such as Boris Yeltsin and the new conservative leaders, not only question this but can be expected to agitate for their own share of power.

The present Soviet leadership has adopted some bold measures that might lead to a better future. That future, however, is not only far from assured, it looks more and more doubtful. The Soviet Union appears to be sliding towards chaos, and how long, and how much of it, will remain together are very much open questions, complicated by the role which the non-Russian republics play in the USSR's economy and defence



(including, in many cases the stationing of nuclear weapons). To hold the country together, Gorbachev, or a successor, may feel it is necessary to use the president's new powers in a more restrictive and illiberal way than the world hopes. In March 1990, Moscow sent ultimatums and deployed troops to counter the declaration of independence that Lithuania had flung in its face. This suggested that the Soviet Union was still considering the use of force to maintain the boundaries of its internal empire. The use of military force in this way in the Baltic states would have profound implications for Gorbachev's political and economic reforms, and for the West, which had hoped to welcome the Soviet Union into a new, less threatening world structure.

### **The Falling Dominoes**

By the summer of 1989 Gorbachev was taking a surprisingly relaxed approach to the question of the loss of communist power in what had until recently been the Soviet Union's external empire, Eastern Europe. The fundamental reason for the successful and peaceful course of the revolutions in the six Soviet satellites (there was significant violence only in Romania) was Gorbachev's decision that the USSR would not use military might to ensure that they remained tied to the USSR. It may have been that he felt that the cost in terms of Western reaction would be too high; any hope that the USSR might have had of Western economic and technical aid, and of a benign military and diplomatic environment, would have died. Gorbachev may not have foreseen, as he has not foreseen many of the effects of the reforms he has instituted in the USSR, that allowing the people to shove aside their rigid rulers would lead not to some species of reform communism but to a dash for political and economic freedom that would totally transform the European scene. Once the process was set in motion there was no way to stop it at a sustainable cost.

The way in which the revolutions developed was not without a certain exquisite irony, particularly with regard to the example it provided of the operation of the much vaunted, but then discredited, 'domino' theory of the Vietnam War era. It was argued then that if Vietnam were allowed to fall to communist rule it would be impossible to stop the virus spreading throughout the rest of South-east Asia, from Vietnam to Thailand to Malaya. The theory itself, it turns out, was not necessarily faulty; it was simply applied in the wrong context and within the wrong time-frame. For in Eastern Europe in 1989 borders were no barriers to the spread of the virus of freedom. Communist regimes toppled like unstable dominoes with ever increasing speed, as the ubiquitous television coverage taught the people of one country after another how to carry through an essentially peaceful revolution that would rid them of the bondage under which they chafed.

The third essential ingredient of the revolutions was a combination of the undiluted courage of the people, whose mass increased in street demonstrations day after day, and the loss of will and nerve on the part

of their communist leaders. Faced with the refusal of the USSR to bail them out by the use of Soviet military forces, and with their own belief in the system they were running corroded by long years of cynicism and sycophancy, they could not cope. The rot at the core of each regime was made manifest. Even in Romania, where Ceaușescu tried to shoot down those who refused to do his bidding, the panic in which he fled from the unarmed opposition spoke with greater eloquence to the army than his orders to break the people's will with force.

After the 'Europhoria', however, both Eastern and Western Europe must come to grips with the sobriety of reality. The promise of democratic rule is beginning to be realized through elections, but, given insecure organizational structures and a multiplicity of fledgling political parties all with immature programmes, the transition is unlikely to be either easy or smooth. The hope must be that the inevitable setbacks on the road to working democracies do not alienate publics from the political process. The promise of economic liberalization will also be difficult to attain without great pain and more sacrifice. Ethnic and nationalist impulses, which have been long submerged under the communists' draconian rule, have re-emerged. The renewed bloodshed between Romanians and ethnic Hungarians in Transylvania in March 1990 seems likely to be a portent of the possibilities to come, and now that the people of many of the newly-freed countries have lost the communists as an easy target to blame for failures and difficulties, there has also been a reawakening of anti-Semitism in the search for replacement scapegoats. The recrudescence of these powerful nationalist and ethnic forces is certain to lead to an increase in internal tensions in the region, and with them will come a rise in instability.

Vaclav Havel, the oft-jailed dissident playwright who was catapulted to the Czech presidency by the revolution, best expressed one of the major problems facing East European countries when he noted that 'the people have suddenly emerged from prison to an open square; they are now free and they don't know where to go'. This was only partially true of the election in March in the GDR; without knowing quite what it would mean, the people voted decisively to go as quickly as possible into a unified German state. By making their first free general election into their last, they have further complicated the political and security conundrums that have faced the West ever since the sharp division of Europe broke down. The whole world has been present at the destruction of the old order; now, as they struggle with the need to build a new order, the statesmen of the West are challenged to be as wise as those who were present at the creation some 40 years ago.

### **A Testing Time**

When 1989 began, the 12 nations of the European Community (EC) seemed reasonably on course for further economic integration in the Single Market of 'Europe 1992', and for a move to a European Monetary Union. There would, of course, have been hitches along the way.

Some, notably France, were championing more speed and more integration than suited others, most notably the UK. The ideal might have been watered down a bit and the Single Market might have come into being a little later than the magic '1992'. But prospects looked bright.

Some of the vision has been blurred by the collapse of communist rule throughout Eastern Europe, now more accurately thought of as Central and South-east Europe. The bunching of the Soviet satellites into one unified category had only made some sense when they were forced by the adherence of their communist governments to a common Marxist view to think and vote as a bloc. Now that they are individually moving to free-market economies at differing speeds and from different economic bases, yet all desiring to take their place within a common European structure, the situation has become vastly more complicated. And the imminent absorption of East Germany into West Germany or, as the Germans prefer to express it, the unification of the two parts of Germany into one country, threatens to bring a poor, highly polluted industrial nation into the EC through the back door.

Chancellor Kohl's address to the EC soon after the East German elections in which he insisted that Germany wanted to see a deepening and quickening of the Monetary Union, and a tightening of European ties so that a new Germany would not be left to play a role independent of Europe was thus a very welcome one. It has helped assuage a reawakened fear that European nations would be left once again to deal with a politically and economically very strong Germany loose in the centre of the continent. If the expression of this German desire is followed by significant deeds it should be easier for the European political and economic intergovernmental councils to make the necessary adjustments to the changed circumstances. As Western Europe faces the task of helping Eastern Europe to dig its way out of the pit into which communist rule has pushed it, it would do well to recognize that this task is fully consistent with its own efforts to weave West European integration into a coherent and cohesive whole. A healthy pan-European order will require both a solid foundation in the West and economic support for the East.

The political and economic restructuring of Europe is a daunting task, yet it rests on the strong pillars of the work that has already been done. Adjusting to the changing security picture in Europe will be an even more difficult task. The first step is to recognize that the strategic and military factors that gave meaning to the two opposing military alliances are disappearing: the Cold War has been officially declared at an end by such experts as Presidents Bush and Gorbachev; the division of Europe was erased when the Berlin Wall was breached. As a consequence, the political and military requirements of the East-West confrontation have ceased to be the basic structuring factors of the European order. To most people, therefore, the stationing of large numbers of foreign troops within both parts of Europe, the emplacement of mass-

ive concentrations of armaments, and the continuation of onerous outlays for defence will increasingly seem anachronistic.

The existing security arrangements have been very successful in Europe in ensuring peace and stability for the past 40 years. The astonishing changes of 1989 have enhanced the prospects for peace, but have reduced those for strategic stability. Yet, within a fluid situation, having various institutions competing for pride of place might not be a bad thing, so long as they can do so in a peaceful environment. Some institutions will clearly not be flexible or adaptable enough to produce a new overriding structure for European order. Both the Warsaw Pact and CMEA appear to be moribund organizations, and without a clear threat to oppose, NATO's role will alter: instead of being the strategic umbrella without which other Western institutions such as the EC could not have been established and flourished, a continuing Atlantic Alliance will figure less prominently. Its role is likely to be more like that of an insurance policy, no doubt useful, indeed indispensable, but not the factor around which the European 'household' will organize its life.

Other organizations, such as the CSCE, may prove of great value in helping to manage political and security relations from 'San Francisco to Vladivostok', but the CSCE's constitutional rule of unanimity will prevent it from ensuring collective security between its members; nor is there a clear and generally acceptable foundation for a different decision-making mechanism, such as majority voting or the establishment of a select group of nations endowed with privileged powers. Other concepts, like the so-called 'Common European House' seem too vague and driven by an individual country's effort to gain a particular goal or advantage to develop into the new order. As for the EC and/or the Western European Union, these bodies may in time play an effective security role, in the framework of a deeply modified European-American compact, but such a prospect remains at this stage a vision rather than a practical proposition. For some time therefore, Western Europe may be characterized by an incomplete and disjointed security system, with a lower-profile Atlantic Alliance, a more prominent CSCE, and a politically more active set of Western European institutions (notably the EC), rather than the rigorous and stable order born of the East-West confrontation.

The political and eventual military withdrawal of the USSR from the states of Eastern Europe is likely to mean a profound change in the geopolitical situation of these states. For 40 years what happened (or did not happen) in Eastern Europe was of vital importance because of the role these states played in the East-West balance and thus in the bipolar system which dominated world politics. While it is true that the West will have an interest in promoting democratic and liberalizing forces in Eastern Europe through economic aid and advice, Western leaders may well begin to question whether in the rush to create new architectures of European security they would wish to give explicit or implied security guarantees to these countries. How Western states marry their desire to

see progress in Eastern Europe with an equally potent concern not to get entangled in the messy aftermath of Soviet decolonization in Europe will be one of the principal dilemmas of the 1990s. Sentiment will argue in favour of a pan-European security 'system', the shape of which is a mystery at the moment, yet prudence may argue in favour of a slower intermingling of the fates of Europe's two halves. The fact remains that the nations of the Atlantic Alliance will have to think hard about the most appropriate manner to fold the emergence of a strategically non-aligned Eastern Europe into their defence doctrines.

While it is difficult to judge exactly how new security arrangements will be made because changes within Eastern Europe, the Soviet Union and Western Europe continue to come thick and fast, any arrangements must include the US and the USSR within their purview. Security arrangements that do not provide sufficient safeguards to uphold legitimate superpower interests, to involve them in the functioning of a European system, and to alleviate their justifiable concerns cannot be expected to last.

### **The Last Superpower**

The Bush Administration has been faulted for being slow to respond to world changes and for ignoring the need for highly imaginative new visions for the bright future. Yet there is much to be said for not rushing forward with grandiose plans before the situation to which they are to apply is clear. At certain key points during the past year the Administration has provided useful and timely concepts to help bridge growing cracks; President Bush's May 1989 proposals to NATO and Secretary Baker's December speech in Berlin addressing EC concerns were both essential in pointing the right direction.

The Administration has properly insisted that European political, economic and security co-ordination are matters in which Europeans should, and must, take the lead. At the last juncture in European history when comparable decisions were being made it was inevitable and essential that the US, as the only Western power not devastated by the war, provided the impetus. Now its more proper role is a co-operative and supportive one, consulting with its allies for mutual benefit. Both the arms-control measures that have already been negotiated and the logic of present developments mean that the enormous force that the US has stationed in Europe for the past 40 years will be reduced, perhaps sharply. While the US recognizes this, and even welcomes it, it is essential that the US remains intertwined, even enmeshed, in a European security structure in a significant way.

The US faces domestic economic and social pressures that add weight to the arguments that now that peace appears to have settled on the world, and the Soviet Union has lost its 'superpower' status, great benefits can be derived which should be wholly devoted to improving life at home. It is a siren song that should be resisted. Isolationism failed dismally before the First World War and again before the Second; the

world's politics and economics are now so much more interdependent that it is certain to be no more successful if tried again.

A massive debt, imploding inner cities, an eroding infrastructure, and adverse trade balances have convinced many Americans that their country has settled into a decline from which it will not be able to recover. But, serious though these illnesses are, none of them, nor all of them together, need be terminal. The US economy is still the largest and most broadly based in the world. Despite the almost paranoid fear of an economic 'attack' from Japan (Americans now rate Japan as the greatest danger they face, with the Soviet Union dropping to the bottom of the charts), this fear is hardly justified. If President Bush could bring himself to call on his present support (as high as 80% of the electorate in some polls) to create new revenues with which to tackle the outstanding problems, they could begin to be put into proper perspective.

### **Some Dark Spots**

Throughout much of the world the insistent determination of ordinary people to live under freer political and economic conditions was triumphant in 1989. In addition to the six Warsaw Pact European countries, Mongolia turned from totalitarian communist rule towards multi-party elections and the beginnings of free market economics; Nicaragua voted out the Marxist *Sandinista* regime; the US forced Panama's tyrannical despot Noriega from power; South Africa has begun to move with surprising and encouraging boldness away from its insistence on an apartheid structure and helped bring independence to Namibia; and Vietnam has begun to institute freer economic, if not yet political, measures. There is scarcely an area of the globe where people did not gain new hope and freedom for themselves and, in most cases, surprisingly peacefully. At the same time, there were all too many regions in which progress remained far too slow, or even non-existent. In the Middle East and the larger portion of Africa, for example, things may not have become worse, but are no better.

Only in China did the pendulum actually swing the other way. Here non-violent demonstrations for further relaxation of tight political and economic controls were brutally crushed. Since the ruthless army action in early June 1989 in Beijing, the elderly Chinese leaders have regressed to tighter political and economic controls. The result is certain to be a country once again isolated from the mainstream of world events, with investment from abroad dropping, a sullen and less productive working force, and thus vastly poorer economic prospects. As the ideological certainty of the leadership is diluted through death in the years to come, these factors can be expected to bring the Chinese back to the realization that the only way forward is one closer to that being attempted by other former communist governments.

As old bipolar antagonisms have faded, an opportunity has been created to deal with growing transnational problems. The unequal distribution of wealth is no longer just a North-South question; it has

expanded to an East–West dimension. The natural desire of the wealthier nations of the West to help those who are just emerging from bondage in the East threatens to affect the efforts that had been started to ease the burden of debt of the economies of the world's underdeveloped countries. While security and stability may no longer be threatened by communist ambitions and power, they continue to be affected by implacable environmental pressures, by the scourge of narcotics, and by the increasing demands of political refugees and economic migrants around the world. None of these problems is amenable to easy or quick answers, but they can only be expected to become more difficult if a beginning is not made soon by those nations which have seen their defence burdens decline.

### **Boldness, But With Caution, Please**

Before he embarked on his extraordinary voyage in 1985 Gorbachev would have done well to have pondered Machiavelli's wise words: 'There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things'. As he struggles now with the Soviet Union's multiple problems and finds that each solution he uncovers for one leads straight on to another, Gorbachev might well think that his early optimism was somewhat misplaced. For, while it is difficult to be sure of many things in these speeded-up times, it is certain that the Soviet Union will not end up where Gorbachev was originally heading.

There is perhaps a lesson in this for Western statesmen. Faced with the necessity of bringing into being a newer order of things it would be sensible for them to mix their boldness with considerable caution. They have a tremendous advantage over Gorbachev; the system that he set out to change was failing miserably and required almost total overhaul. The one that they will be adjusting is one that has worked superbly to achieve the ends for which it was established. The challenge for Western statesmen, however, is to recognize that they cannot stand pat, for the fundamental changes the world has undergone have produced an environment which will require changes in the existing structures and which presents new challenges. On the one hand, they should not overestimate the need for complete changes. The present security arrangements have proved their worth; what is probably best done is to adapt them with care to the new circumstances, for there are certain to be yet newer circumstances in the not-too-distant future. On the other hand, it is not a time to relax, for the new challenges are likely to require just as much imagination, dedication and resolute investment as went into the build-up of those security structures which served the world so well for 40 years, and which played midwife to the birth of this bright, new world.

# The Superpowers

## THE SOVIET UNION: A DISSOLVING EMPIRE

When Mikhail Gorbachev became General Secretary of the Communist Party of the Soviet Union (CPSU) five years ago, he called for a 'revolution without bullets'. A revolution is what he got; but it is no longer without bullets and it is probably more far-reaching and dangerous than the Soviet leadership had either anticipated or desired. In the past year the Soviet position in Eastern Europe has collapsed. More ominously, crises, chaos and change on an unprecedented scale have enveloped the Soviet Union itself.

The situation in the country today is inherently unstable. Neither politically nor economically can the Soviet Union remain as it is; it must either take several steps forward in its drive for reform, or several steps backward. Gorbachev seems willing to risk further change, recognizing that any step backward, any return towards Brezhnevism (or even Stalinism) would lead straight to disaster. What remains far less clear, however, is whether he has any genuine answers to the ever growing, ever more dramatic problems in the USSR, whether those answers are relevant, and whether they will be formulated and put into practice in time. For the dizzying speed of developments in the Soviet Union, as in the former communist states of Eastern Europe, has placed an unmistakable stamp of immediacy on the need for change.

For a number of years, there have been alarming signs of developing crises in many areas. By early 1990, however, the problems had not only intensified, they had become ineluctably interlinked. In summer 1989, the volatile mix exploded when large-scale strikes rapidly evolved into a political challenge which has shaken the leadership. Since then, there has been an acceleration of the crisis. In addition to the events in Eastern Europe, it is a combination of three factors which has been responsible: the deteriorating economic situation and the accompanying collapse in the supply of essential consumer goods to the Soviet population; the increasing virulence of the nationalities problem; and the deepening political crisis in the country.

### Truly Dismal Economics

The continuing failure of the Gorbachevian reforms to improve Soviet economic life is a fundamental cause of the present difficulties. Without a degree of economic success, the population's rising expectations fuelled by *glasnost* simply cannot be met.

The Soviet economy had not done well in 1988; in 1989 it deteriorated even further. According to official (and probably over optimistic) statistics, national income grew by just 2.4% in 1989 (1988: 4.4%) and thus badly missed the planned target of 5.7%. Gross national product



went up by 3.0% (1988: 5.5%) and not the planned 7.0%. Industrial production grew by only 1.7% (with a target of 3.4% and an increase in 1988 of 3.6%). Dismal though these figures may be, what is of even greater concern is that what growth there was occurred early in the year and then plummeted. Industrial output, for example, increased in the first two quarters of 1989 by 2.7%, declined to 1% in the third quarter, and became negative in the final quarter.

Specific production figures only confirm this gloomy overall trend. While the grain harvest was a fairly decent 209 million tons in 1989 (1988: 195 mt, 1989 plan: 236 mt), total agricultural production failed to reach its planned targets. Oil production declined from 624 mt in 1988 to 608 mt in 1989, and production problems in the Caucasus will make it difficult to achieve even this reduced output in the future (50% of all Soviet oil rigs are produced in Baku and production there is at a standstill). The declining trend in oil production will seriously affect future Soviet hard currency earning potential. Net foreign indebtedness, indeed, followed the sharp rise upwards that it had taken in 1988, although at \$32.8bn, it remained tolerable.

Coal production declined. The foreign trade position of the USSR worsened, with exports rising by only 1.7% while imports went up by 7.9%. The USSR actually ran its first trade deficit (of some 2bn roubles) in living memory. Labour productivity grew by a mere 2.2% (1988: 4.8%, 1989 plan: 4.5%) and fell steadily throughout the year. Inflation, on the other hand, rose by an official 7.5%, but if the black market (whose importance to the economy continues to grow) is taken into account, the true rate is somewhere between 11% to 15%.

Since wages increased 5.4 times faster than production, the demand for goods continued to outpace their supply. Excess demand in 1989 amounted to at least 70bn roubles, a figure that must be seen in the context of earlier accumulated savings of over 300bn roubles. The budget deficit increased to 130bn roubles and continues its upward trend. The investment programme came nowhere near its targets: of the 157 main investment projects scheduled for completion in 1989, only 108 were actually finished. While investment funds increased by 3%, and thus corresponded roughly to the planned target, the value of finished investment projects decreased by 3%. Half-finished investment projects correspondingly grew to a staggering 204.1bn roubles in value. In short, by the end of 1989 the Soviet economy was practically in a state of free-fall.

Five years after the drive for *perestroika* and economic reform began, these are shocking results. Even Brezhnev had done better in his final years. Thus far, the only significance of the economic reform in the Soviet Union has been to make it clear that the old economic system no longer functions, but that there is, as yet, nothing to replace it. In fact, the piecemeal reforms which have been offered to date are actually worsening, rather than improving, the situation.

Nowhere was this as clear as in the consumer goods market. Today the supply of essential consumer goods is on the point of collapse.