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YUGOSLAVIA'S INTERNATIONAL POSITION

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 7 September 1955. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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YUGOSLAVIA'S INTERNATIONAL POSITION ¹

THE PROBLEM

To reassess Yugoslavia's present and future international position and to estimate the probable effects of possible US courses of action with respect to Yugoslavia.

CONCLUSIONS

1. We believe that the dominant concerns of the Yugoslav regime, at least so long as Tito remains alive, will be to insure its own survival free of foreign domination and to advance its own influence and prestige on the world scene. Despite Tito's Marxist world outlook, we believe that he will continue to regard his interests to be best served from a flexible position in which Yugoslavia can achieve benefits from both power blocs with a minimum of commitments to either. (*Paras. 23, 25*)

2. We have carefully considered the possibility that Tito may have decided that his interests can best be served from a position within rather than outside the Communist orbit, and that he has made an agreement with Moscow to rejoin the Bloc. His present maneuvers might thus be designed to prepare the way for open

acknowledgment of such an agreement. We consider it unlikely, however, that Tito has come to this decision or has made such an agreement with Moscow. Even if he were fully convinced that the USSR was prepared to take Yugoslavia back, not as a Satellite but as a partner, a position in the Bloc would still offer Tito and his key associates great personal danger and would be unlikely to offer any great advantages to compensate for the loss of world-wide influence and prestige which Tito's independent policies have won for him. (*Para. 24*)²

3. Tito will continue to take advantage of opportunities to profit by the USSR's

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"We consider it highly unlikely that Tito has come to a decision for overt acknowledgment of a partnership in the Soviet Bloc. However, the existence of a covert arrangement to this end cannot entirely be discounted."

He further believes the word "overt" should be inserted between "a" and "position" in the fourth sentence.

¹ This estimate re-examines Yugoslavia's international position in the light of developments since publication of our last full-length treatment of Yugoslavia, NIE 31/1-55: Yugoslavia and its Future Orientation, 19 May 1955. It is designed to supplement rather than completely replace that estimate.

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present show of friendship, to test Soviet good faith, and to encourage the readjustment of Soviet relationships with the Satellites and with the non-Communist world which he hopes is in the making. This process is likely to be marked not only by further economic and cultural cooperation but also by cautious moves toward re-establishment of party-to-party relations. (*Paras. 26-30*)

4. However, we believe that as long as Tito is in power this process of political rapprochement will not result in Yugoslavia's realignment with the Bloc unless the USSR proves willing to make such modifications in the nature of its relationships with the Satellites as to convince Tito that he would have real opportunities for independent leadership and influence in the Communist world. We feel safe in estimating that there is a pro-Soviet element in the Yugoslav Communist Party that is now pressing for closer ties with Moscow, but we are uncertain as to its leadership and extent. However, Tito is clearly in firm control. In the event of Tito's death such a pro-Soviet element could well exert dominant influence, especially if a confused struggle for power took place. (*Paras. 31-34*)

5. Given a continuation of the USSR's present conciliatory behavior, Yugoslavia will probably continue to preach "peaceful coexistence" and may toy with the idea of some form of buffer alignment in Europe. It will support various Soviet and Chinese Communist diplomatic moves, and will display increasing indifference toward its military ties with the West. However, it will still wish aid and trade ties with the West, will display continuing interest in economic regional co-

operation with Western states, and will look to the West as a potential source of support against possible Soviet designs. (*Paras. 32, 35-37*)

6. Yugoslavia's adherence to its Balkan Alliance commitments in time of war is doubtful, and its wartime usefulness to the West is uncertain. We believe that the Yugoslav regime would endeavor to remain neutral in a general war, at least until the situation clarified. We also believe, however, that Tito would fight if directly attacked, and might also enter the war, not because of his Balkan Alliance commitments, but as a consequence of his judgment as to the course of hostilities and as to the advantages which he might gain from participation. Ultimately, Tito might consider it advantageous, and perhaps even essential for the survival of his regime, to join the winning side before the end of hostilities. (*Paras. 37-38*)

7. Present US ability to affect the process of readjustment in Yugoslavia's international position is limited:

a. Although the Yugoslavs desire additional US military and more particularly economic aid, they would almost certainly refuse to make more than minor concessions to obtain it. They are probably prepared to accept a substantial reduction in military aid. (*Paras. 40-41, 44*)

b. Should a substantial reduction in economic aid actually take place, Yugoslavia's ability to pursue major economic goals would be severely limited, and its tendency to look to the Bloc for increased trade and credits, which will in any case be evident, would be intensified. How-

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ever, such a cut would not critically endanger Yugoslavia's economic viability if the regime accepted the need for austerity measures, and we do not believe that Tito would allow himself to become economically subservient to the Bloc. (*Paras. 41-43*)

c. A substantial reduction in US economic aid would cause considerable Yugoslav resentment and would somewhat impair Tito's bargaining position as against Moscow, though it would not in itself impel the Yugoslavs to move politically closer to the Bloc. (*Para. 44*)

DISCUSSION

I. YUGOSLAVIA'S PRESENT INTERNATIONAL POSITION

8. Yugoslavia's position vis-a-vis the two major power blocs is in process of readjustment. Until approximately a year ago, the combined pressures of economic necessity and Soviet aggressiveness and hostility tended to force Yugoslavia in the direction of increasingly close association with the West, despite the Tito regime's continuing dedication to Communism and its nationalistic reservations about such a relationship. Even before this pro-Western trend had culminated in the conclusion of the Balkan Alliance in August 1954 and in Yugoslav acceptance of a Western-backed solution of the Trieste dispute two months later, however, the death of Stalin had led to some easing of the pressures on Yugoslavia.

9. In the past year, with the stepping up of the Soviet drive for "normalization" of relations with Yugoslavia and with the unfolding of the USSR's current campaign for a general relaxation of tensions, signs of a change in Yugoslavia's appraisal of the world situation and of a consequent effort to develop a position more independent of the West became increasingly apparent. Yugoslav interest in joint defense preparations, even within the limited Balkan Alliance context, declined. Frictions with the US increased over the administration of military and economic aid, particularly since the US has endeavored to obtain full compliance with aid requirements. The Yugoslavs displayed increasing interest in the concept of "peaceful coexistence" and in the possibility of developing some kind of

"third force." Meanwhile, the "normalization" of relations with the Sino-Soviet Bloc proceeded apace.

10. The four months since our last estimate have witnessed an intensification of these trends. The Yugoslavs have confirmed their unwillingness to extend their present defense commitments to the West and, although they have continued some military coordination under the Balkan Alliance, have indicated that under present circumstances they have little interest in pushing ahead with Balkan Alliance military planning. They have remained difficult to deal with on the administration of military aid. The transmission of Soviet-Satellite intelligence information to the West has been stopped on the ground that it is no longer consistent with Yugoslavia's international position.

11. The resumption of Yugoslav ties with the Communist world has now proceeded to the point where Tito is openly talking of a restoration of party-to-party as well as government-to-government contacts with the USSR and the Satellites, despite the statements by some Yugoslav leaders at the time of the Belgrade Conference at the end of May of this year that no such relationship was contemplated. A preliminary move in that direction has already taken place in the recent visit to Moscow of a Yugoslav parliamentary delegation including 10 members of the party Central Committee and one member of its Politbureau. A Soviet-Yugoslav economic agreement announced on 1 September 1955 provides for more than doubling trade between Yugoslavia

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and the USSR during the next three years, an increase which would bring Yugoslav trade with the Bloc as a whole up from approximately 17 percent to 23 percent of total Yugoslav foreign trade. The agreement provides for the extension to Yugoslavia of Soviet credits for 10 years at two percent, including \$54 million earmarked for raw materials imports, a \$30 million loan in gold or Western currency, and a probable additional amount for the financing of certain key investment projects. Implementation of this agreement would make the USSR Yugoslavia's largest creditor and one of its four chief trade partners.

12. Yugoslavia has continued to insist that it will not compromise its independence as a sovereign state. The Tito regime has indicated continuing interest in the economic and cultural aspects of the Balkan Alliance and in such Western organizations as OEEC and the Council of Europe. The Yugoslavs have continued to assert their interest in Western friendship and in Western economic and military aid. However, even though the Yugoslavs probably remain interested in improving their military establishment, they appear to have become increasingly convinced that the threat of Soviet aggression against the non-Soviet world in general and against Yugoslavia in particular has been sharply reduced, at least for some time to come. Under these circumstances they see no necessity to proceed with military planning which might limit their freedom of action and might jeopardize their developing relationship with the Communist world. In fact, they view the present situation as affording unique opportunities to reduce what they had almost certainly regarded as undue dependence on the West.

13. It is evident that the events of recent months have greatly strengthened the Yugoslav leadership in its belief that a significant change has in fact taken place in Soviet attitudes and policies. In particular, Soviet willingness to confess the error of Yugoslavia's expulsion from the Cominform in 1948 and to give formal recognition to Yugoslavia's status as an independent and genuinely socialist state has encouraged Yugoslav leaders to

hope for a loosening of Soviet control over the Satellites. Tito believes that the existence of a group of states in Eastern Europe, all pursuing policies substantially independent of either of the present major alignments, would greatly reduce the precariousness of Yugoslavia's position. In his view, it would also open up the possibility of Yugoslav leadership in Eastern Europe, particularly the Balkans, and of fulfillment of long-cherished aspirations toward Balkan federation. The Yugoslav leaders may hope, perhaps wishfully, that some such prospects are in view as a result of the recent changes in Soviet policy. In any event, the Tito regime feels that it has been remarkably successful in assessing the developing world situation and that it has profited by its firmness in dealing both with the West and with the USSR. All these factors have increased the regime's confidence and self-esteem.

14. Developments of recent months, however, have produced little new evidence regarding the most perplexing aspect of the Yugoslav problem: (a) the question of the extent to which major elements in the regime may now tend to identify themselves once again with the Sino-Soviet Bloc; and (b) the related question of a possible secret Soviet-Yugoslav deal. Despite the speed of Yugoslav-Soviet rapprochement, the Yugoslavs still appear to be moving cautiously, with a wary eye to Soviet policy, especially toward the Satellites. Moreover, they appear anxious to avoid prejudicing either their own sovereignty or their present ability to deal with the West and to develop their influence as an independent power among neutralist countries and socialist parties. While reports of a comprehensive Soviet-Yugoslav understanding continue, these reports remain unsubstantiated.

II. PROBABLE DEVELOPMENTS

15. Major ambiguities regarding Yugoslavia's international position are likely to persist for some time to come. Although some clarification of Yugoslavia's immediate intentions vis-a-vis the West may emerge out of the present discussions over US military and economic aid,

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the regime will probably require one or more years of probing and maneuver before it can determine Yugoslavia's ultimate relationship with the Bloc. The nature of this relationship will be deeply affected not only by Yugoslav and Soviet intentions toward each other but also by the course of developments in the Satellites, Western policy toward Yugoslavia, and the trend of developments in the international situation as a whole.

Probable Soviet and Satellite Policies

16. Moscow almost certainly hopes that Yugoslavia will ultimately come back as a loyal member of an international Communist Bloc in which dominant leadership continues to be exercised by the USSR. In pursuit of this objective, however, the USSR's present leaders have proceeded in a far more realistic and flexible way than did Stalin. At the time of the Belgrade visit of May-June 1955 the Soviet leaders not only openly confessed the error of Yugoslavia's 1948 expulsion from the Cominform but also formally recognized both Yugoslavia's independent and equal status as a nation and the validity of its claim to be a genuinely socialist state.

17. Moreover, the Soviets apparently recognize that even these new tactics of persuasion will not succeed overnight. Although they were probably disappointed by the firmness of Tito's initial response to their Belgrade overtures, they will probably continue in their efforts to woo the Yugoslavs. They probably hope that these policies will eventually succeed either in overcoming Tito's fears of old-style Soviet domination or in producing a sufficient revival of pro-Soviet loyalties among other Yugoslav leaders to bring about Yugoslavia's return to the Bloc. Short of achievement of this maximum objective, the USSR probably hopes to achieve a number of minimum objectives which would support the general line of present Soviet policy. For the present, the Soviet leaders will probably be satisfied if they can: (a) disrupt relations between Yugoslavia and the West, in part by arousing Western suspicion of Yugoslav good faith; (b) arrest the development of the Balkan Alliance, in particu-

lar its military implementation; (c) provide the West with an additional demonstration of Soviet "reasonableness" and flexibility; and (d) encourage the belief actively fostered by Tito and Nehru that the policy of noncommitment to either power bloc will serve the cause of peace. The Soviets probably also hope that their new tolerance of the Yugoslav brand of Communism, which they formerly branded as heretical, will tend to break down the isolation of the Communist parties and permit the reestablishment of ties with socialist parties, particularly in Western Europe, in the interest of a revival of popular front tactics. The latter maneuver would assist greatly to achieve a principal Soviet aim, the disruption of NATO and other free world alliances.

18. There are a number of ways in which the Bloc can further woo Yugoslavia. Trade can be expanded even further, and substantial loans on easy terms have already been negotiated. The recent cancellation of Yugoslavia's pre-1948 debt to the USSR may be followed by similar gestures on the part of the Satellites, including even Hungarian payment of World War II reparations to Yugoslavia. The Yugoslavs state that the USSR has discussed licensing the manufacture of MIG's by Yugoslavia. And, as announced in the Belgrade Declaration, there are possibilities of increased cultural and "information service" interchange, and of cooperation in the field of peaceful uses of atomic energy. There is no evidence of Soviet attempts to make military agreements with Yugoslavia at this stage, but the USSR might offer a nonaggression pact.

19. In the Soviet view, however, the most promising opportunities for influencing Yugoslavia probably lie in the cultivation of party-to-party relations, an area in which Tito now appears willing to cooperate. Such relationships would enable the Soviets to exploit common bonds of Communist ideology and of hostility to capitalism, to draw on latent loyalties to the USSR among Yugoslav Communists who have never been comfortable with one foot in the Western camp, and thus to increase the internal pressures on the regime to move east of center.

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20. Moscow will probably supplement party-to-party overtures with invitations to the Yugoslavs to join or rejoin various international Communist-front organizations. At the same time, the USSR might elect to dissolve the Cominform, an organization symbolic of Moscow's efforts to dominate Yugoslavia. Dissolution of the Cominform could be presented as additional evidence that the objectionable policies of Stalin have been repudiated by his successors. Moreover, such a move would cost the USSR little, since the Cominform has been reduced to a kind of propaganda center, and effective Soviet control over the Satellites would continue to be assured by other means.

21. In seeking closer ties with Tito, particularly in the party and ideological fields, the USSR would of course be confronted with the problem of continuing to assert control over the Satellites while apparently accepting Tito's thesis that each country can pursue its own road to socialism. This dilemma may cause the Soviets some difficulty in re-establishing relations with Tito.

22. Despite the obvious difficulties which most Satellite governments face in suddenly reversing their long-established line on Tito, a general Satellite reconciliation with Belgrade already appears to be in the making. Improved commercial relations, in particular, would be advantageous to both the Satellites and Yugoslavia, hard-pressed as the latter is over trade debts to the West. On the other hand, the growth of more cordial relations between Yugoslavia and Hungary, Bulgaria, and Albania will be impeded by long-standing minority and territorial disagreements not offset by ideological reconciliation.

Main Elements in Yugoslav Policy

23. Although continuing ambiguities make it difficult to chart the future course of Yugoslav foreign policy, we believe that certain general considerations will continue to govern Yugoslavia's outlook at least so long as Tito remains alive. The dominant concerns of the regime will almost certainly remain those of insuring its own survival free of foreign dom-

ination and of advancing its own influence and prestige on the world scene. It will almost certainly continue to insist, to the Communists as well as to the West, that it be accepted as an independent and equal entity and will take pains to guard against any infringement of its own sovereignty and control within Yugoslavia. And while Tito will be influenced in his judgments by his Marxist world outlook and by his sense of emotional identity with the cause of Communism throughout the world, his actions in the final analysis will probably continue to be based on his own self-interest and desire for independence.

24. We have carefully considered the possibility that Tito may have decided that his interests can best be served from a position within rather than outside the Communist orbit, and that he has made an agreement with Moscow to rejoin the Bloc. Thus, he might now be engaged in a covering operation designed to ease the economic disruptions attendant on a break with the West, to prepare Yugoslav public and Communist party opinion for the change, and to extract maximum concessions from the USSR. We consider it unlikely, however, that Tito has come to this decision or has made such an agreement with Moscow. Despite the apparent cordiality of some recent Yugoslav-Soviet exchanges, Tito almost certainly continues to harbor suspicions about the USSR. He would almost certainly not return willingly to Satellite status. Moreover, even if he were convinced that the new Soviet leadership had fully accepted the necessity of refraining from interference in Yugoslav internal affairs and of according Yugoslavia a status of genuine partnership, a position in the Bloc now would offer few advantages to compensate for the loss of influence and prestige throughout the world which Tito prizes. Yugoslavia would be in a distinctly weak bargaining position vis-a-vis the USSR, particularly since it would no longer have the leverage which its present uncommitted position now affords it. Moreover, given the existing tight Soviet control over the Satellites, Yugoslavia would have little real opportunity for extending its ideological

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and political influence in Eastern Europe by joining the Bloc.³

25. We therefore believe that, under present world conditions, the Tito regime will continue to regard its interests to be best served from a flexible position in which Yugoslavia can achieve benefits from both power blocs with a minimum of commitments to either. The Yugoslavs will probably continue to place great emphasis on relaxation of international tensions, not only because a general war between the Sino-Soviet Bloc and the capitalist West would pose an extremely grave threat to the regime's survival but also because an easing of tensions would tend to increase Yugoslavia's freedom of maneuver.

Probable Yugoslav-Bloc Relations

26. Tito will almost certainly welcome additional conciliatory moves by the Soviet Bloc, both toward his own regime and in the larger arena of East-West relations. At the very least, he will wish to encourage the USSR in its new-found willingness to accept Yugoslavia as a friendly state, to take advantage of economic opportunities within the Bloc, and to further the cause of "peaceful coexistence." At the most, he probably hopes that circumstances are forcing the new Soviet leadership toward an even more thorough-going abandonment of Stalinist policies and practices. This developing situation, he probably expects, will provide Yugoslavia with new opportunities to achieve beneficial relations with the USSR, to advance its long-standing ambitions in the Balkans, and to enhance its stand-

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ing in the Communist movement and in the world. Over the next year or two at least, Tito's Soviet policies will probably be designed to profit by the USSR's present show of friendship, to test the sincerity of the USSR's professed willingness to accept Yugoslavia as an equal and independent state, and to encourage a further modification of the Soviet system, particularly with respect to control over the Satellites.

27. In the field of trade and economic relations, Yugoslavia's heavy import needs, its deteriorating balance of payments, and its financial arrears with Western nations will probably make Soviet offers appear extremely attractive. Yugoslavia has welcomed the current year's expansion of trade with both the USSR and the Eastern European Satellites and probably hopes to see the trend continue. In the wake of the Soviet-Yugoslav economic agreement of 1 September, Yugoslavia probably hopes for similar liberal treatment from the Satellites. It has indicated that it considers continued compliance with Battle Act restrictions to be inconsistent with its new status vis-a-vis the Bloc. In cultivating improved trade and economic relations with the Bloc, however, Tito is not likely to forget the catastrophic economic consequences which ensued after 1948 as a result of his previously one-sided dependence on the Bloc. Accordingly, he will probably continue to desire countervailing Western trade ties and economic support.

28. Tito will probably go ahead with various forms of closer governmental, economic, and cultural relations with the USSR as envisaged in the Belgrade Declaration of June 1955. Concurrently, he may reduce Western cultural and information activities in Yugoslavia. In developing contacts with the Bloc, however, he will be cautious lest he jeopardize his independence and open the door for Soviet domination. For example, Yugoslav cooperation in cultural and information service exchanges, called for in the Declaration, would probably be marked by active insistence on Yugoslavia's position as an equal and by precautions against Soviet subversive efforts. In the field

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of technical cooperation, such as peaceful uses of atomic energy or the grant of a license to Yugoslavia to manufacture MIG's, the Yugoslavs would probably restrict the numbers and activities of the Soviet personnel required as technical advisors.

29. The most critical aspect of the developing relationship between Yugoslavia and the Bloc is that of party-to-party contacts. The incentives to development of contacts are probably strong on both sides. The Soviets desire them as a means of drawing Yugoslavia away from the West and eventually back into the Orbit, and the Yugoslavs are intrigued by the possibility of being able to assert their influence on the Communist regimes of Eastern Europe. They are proud of their own contributions to Communist ideology and governmental technique and have a certain amount of missionary zeal as well as underlying self-interest in their desire to regain entree to party circles in other countries.

30. Nevertheless, the development of close party-to-party ties would pose dangers to both sides. Yugoslavia's openly expressed desire for a loosening of Soviet control over the Satellite governments and parties directly challenges what has been thus far one of the cornerstones of the Soviet system. The Yugoslavs themselves, however, face the problem of how to achieve a significant degree of influence in the Communist world without resubjecting themselves to Soviet discipline and political penetration and without unduly compromising their position vis-a-vis the Western powers, the neutralists, and the Western socialist parties. As a result, the delineation of Soviet-Yugoslav party relations is likely to involve considerable maneuvering on both sides. The USSR will probably continue its efforts to play on the emotional and ideological bonds of Communism. The Yugoslavs, for their part, will probably continue to utilize their special position to agitate for a lowering of the barriers to the development of Yugoslav influence among the Satellites. Initially, at least, such party relations as may develop between Yugoslavia and other members of the Bloc are likely to be confined to cautious prob-

ings, probably in the guise of parliamentary and cultural delegations, with each side moving warily to avoid undesirable commitments.

31. How far the process goes will depend mainly on the extent to which the USSR manages to satisfy Yugoslavia's hopes and aspirations about future developments in the Communist world. Insofar as the USSR proved willing to accord Yugoslavia a real voice in Communist affairs, and as a necessary corollary to permit a significant weakening of its hitherto tight control over the Satellites, Yugoslavia's present leadership would probably be progressively tempted to resume a place in a Communist Bloc whose character had thus changed. Should there meanwhile be a further relaxation of present East-West tensions, the temptation to participate more fully in Communist affairs would be more intense, since the Yugoslavs would probably estimate that they could go further in that direction without alienating those whom they wished to influence outside the Bloc. A weakening of the USSR's fundamental control over the Satellites, however, would require a basic shift in Soviet policy which it would almost certainly not adopt merely in order to woo Yugoslavia and which, under present circumstances, would be extremely difficult to reconcile with the USSR's continuing requirements for security and control along its Western approaches.

32. Unless the USSR becomes convinced that it can fundamentally modify the nature of its hegemony over Eastern Europe, it is likely to stop short of according the Satellites anything approaching genuine internal independence and real partnership status in the Bloc. Under these circumstances, the Yugoslavs in turn will probably stop short of a full commitment to the Bloc, and will at the most adopt a kind of leftist-neutral or fellow-travelling position. In line with such a policy, Yugoslavia is likely to continue to preach "peaceful coexistence" and to decry the existence of blocs. It may toy with the idea of some form of buffer area separating the Soviet Bloc from Western Europe. It will probably support Soviet policies on such subjects as disarmament and a gen-

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eral European security system. In addition, it will probably continue to support Communist China's claims to UN membership and sovereignty over Taiwan.

33. So long as tight control of the Bloc remains in the hands of the USSR, it is unlikely that Yugoslavia could be brought to relinquish its present independent status by a Soviet proposal, such as Yugoslav leadership of a Balkan federation within the Bloc. However, Yugoslavia would be increasingly interested in such a proposal if Soviet policy toward the Satellites and the general European situation developed so as to offer real opportunities for Yugoslavia to function without being subject to Soviet veto.

34. Meanwhile, however, the danger will exist that Tito may overestimate his ability to control domestic forces set in motion by his own policies. There almost certainly is a doctrinaire element among Yugoslav Communists which has strong leanings toward the "first land of socialism," though we are uncertain as to its leadership and extent. While the present strength of such elements is probably not great, the reversal by the Soviets of Stalin's vindictive policies toward Yugoslavia may work to encourage this school of thought and increase its appeal on the lower levels of the regime and party. A resumption of party-to-party relationships, for example, would encourage the doctrinaire element and offer opportunities for it to expand. And while Tito and his immediate circle are clearly in firm control of the regime, they cannot entirely ignore party pressures from below. In the event of Tito's death, a pro-Soviet element in the party might well be able to exert dominant influence, especially if his leadership were replaced by a weaker sort, or if his disappearance resulted in a confused scramble for power.

Probable Yugoslav Policy toward the West

35. We believe that Tito, while accepting closer ties with the Soviets, continues to want a beneficial relationship with the West. De-

spite increasing signs of an unyielding Yugoslav stand on various points of controversy in dealings with the West, Western economic aid and trade will remain extremely important in the investment program, in supporting the defense program, and also to cover chronic shortages of food. Moreover, Tito will probably continue to count on Western political and strategic self-interest to provide countervailing support for Yugoslav independence against possible Soviet designs. Finally, Tito's efforts to advance the cause of "peaceful coexistence," and to enhance his own international prestige and influence in the process, will require continued friendly relations with the West as well as with the East.

36. To this end, Tito will probably continue to assert his gratitude for past Western support and to protest his continued good will toward the West. He will also probably express continued interest in organizations such as OEEC on the grounds that broad European cooperation is a desirable goal. He is not, however, likely significantly to modify his present stand on outstanding issues in his relations with the West simply to please the latter. His arrangements with Western powers were never more than marriages of convenience at best, and he is likely to be extremely confident of his ability to maneuver toward his present objectives without undue risk of burning all his bridges to the West. So long as the USSR continues its present conciliatory behavior, Tito will almost certainly increase his resistance to further military ties with the West and in fact is becoming increasingly indifferent to such ties as he now has. He will show even less interest in the military aspects of the Balkan Pact and, in the face of probable Greek and especially Turkish misgivings over the Yugoslav attitude, even the nonmilitary aspects of that alliance would be likely to atrophy.

37. Under these circumstances, Yugoslavia's adherence to its Balkan Alliance commitments in time of war is doubtful, and its wartime usefulness to the West is uncertain. Should the USSR return to more generally aggressive policies, thereby reviving the threat of general war, Yugoslavia might be impelled once

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again to look to the West for support, and might be willing not only to revive past commitments but actually to make more binding arrangements in the interests of effective joint defense. However, the extent to which these factors operated would depend on whether the developing world situation appeared to pose direct threats to the Yugoslav regime. Tito would almost certainly not feel it necessary to commit himself to the West again if he came to believe that the changing nature of warfare had removed the necessity for campaigns through Yugoslavia and that the USSR was in fact willing to respect Yugoslav independence and territorial integrity despite its renewed hostility toward the West.

38. We believe that the Yugoslav regime would endeavor to remain neutral in a general war, at least until the situation clarified. We also believe, however, that Tito would fight if directly attacked, and might also enter the war, not because of his Balkan Alliance commitments, but as a consequence of his judgment as to the course of hostilities and as to the advantages which he might gain from participation. Ultimately, Tito might consider it advantageous, and perhaps even essential for the survival of his regime, to join the winning side before the end of hostilities.

III. EFFECTS OF POSSIBLE US COURSES OF ACTION

39. Although the Tito regime continues to rely on foreign economic aid, primarily from the US, in recent months Tito has become increasingly outspoken in insisting that all such aid, while welcome, must be offered without political and military strings. While there are almost certainly elements of bravado and doctrinaire suspicion in this attitude, we continue to believe that the regime is in fact willing to sacrifice Western assistance rather than accept it at the price of significantly modifying its present international behavior. Yugoslavia, indeed, probably feels more able than at any time in recent years to make the adjustments which a loss or reduction in Western assistance would entail. Increasing trade with the Bloc and large-scale Soviet loans on favorable terms will lessen the regime's de-

pendence on the West, and have almost certainly led to a greater sense of confidence and bargaining power in economic relations with the West. Perhaps more importantly, Tito's belief that Soviet policy under the new leaders has largely dispelled the Stalinist threat of aggression against his regime would make it easier for him to cut his burdensome defense expenditures.

40. Accordingly, the leverage once afforded the US by Tito's urgent need for economic and military assistance alike has significantly declined. Particularly in the field of military aid, it is highly unlikely that the threat of curtailment or termination of current US programs would be effective in altering Yugoslavia's present determination to resist military ties with the West, to play down the military aspects of the Balkan Alliance, and to refuse to meet US requirements on inspection and administration of military aid.

41. The loss or curtailment of economic aid would be a more serious matter, requiring some internal readjustments and changes in foreign economic policies. The bulk of shipments under the current aid program are cotton and wheat, essential imports which Yugoslavia would have to obtain elsewhere — probably having to use its already critically short supply of foreign exchange. Lacking Soviet aid, Yugoslavia would probably be faced with some combination of cuts in domestic consumption, the investment program, the operation of already completed plants, or in the military program. In addition, current delicate negotiations over the rescheduling of Yugoslav debts to Western nations would probably be adversely affected if not totally disrupted by a US decision to curtail or withdraw economic aid. For these reasons Tito will probably make a greater effort to convince the US of the desirability of continuing the economic aid program than he will with respect to military assistance. Nevertheless, he will probably remain unwilling to make significant concessions to this end.

42. Yugoslavia could probably sustain a severe curtailment of US military and eco-

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conomic assistance without direct and immediate threat to its independence and stability, although a sharp reduction of military aid would necessitate a slowdown in the improvement of Yugoslav defense capabilities. And while the loss of economic assistance would necessitate retrenchment, the worst effects could probably be averted through some combination of expedients, possibly including: (a) a default on Yugoslavia's debts to Western nations sufficient to ease the balance of payments without endangering essential trade; and (b) a stimulation of internal production and marketing through price increases and tighter credit and inventory controls.⁴

43. We consider, therefore, that a substantial reduction of US economic aid would not critically endanger Yugoslavia's present viability provided it were prepared to undertake the necessary austerity program. However, it would severely limit Yugoslavia's freedom of action, particularly with respect to investment, and would bar the attainment of foreign exchange and food reserves which the Yugoslavs appear to consider essential to their independence. The Yugoslavs will in any event turn to the Bloc for increased trade and credits, and possibly ultimately for military equipment as well. However, should a severe cut in US economic aid take place, this process would almost certainly be accelerated. Although Yugoslavia's most important import items under the aid program are commodities which could be readily obtained from the West once again if Yugoslav policy should require it, Tito would probably become enmeshed in some economic relationships with the Bloc, as in procurement of capital goods and military equipment, which he would find difficult to change.

44. These factors, however, are unlikely to have a decisive effect on Yugoslavia's position

⁴Since 1950, Yugoslavia has had chronic external payments deficits which reached a high of \$213 million in 1952-1953, and are estimated at about \$112 million in 1954-1955. These have been covered by: (1) grants from the Western Powers (chiefly the US) totalling more than \$600 million through FY 1955; and (2) by loans amounting to about \$400 million, of which approximately \$40 million comes due this year.

In July 1955, Yugoslavia submitted a memorandum to the tripartite powers in support of its current efforts to obtain a rescheduling of its medium term debt, and presumably also in order to make a case for continued Western aid. The document projects normal external payments deficits for the next three years, and also postulates substantial additional deficits based on special expenditures for foreign exchange and food reserves and for equipment imports.

(Approximate figures, millions of dollars)

	1955-1956	1956-1957	1957-1958
<i>Receipts</i>			
Exports and noncommercial payments	283	298	319
<i>Normal Expenditures</i>			
Imports (raw materials, semimanufacture, maintenance, etc.)	246	259	264
Imports (food)	77	54	42
Debt Servicing	38	40	37
DEFICIT	78	55	24
<i>Extraordinary Expenditures</i>			
Additional foreign exchange reserves	30	35	35
Food reserves (wheat and lard, three months supply)	15	15	0
Import of capital equipment	50	75	75
GRAND BALANCE	-173	-180	-134

With respect to the FY 1955-1956 projection, the Embassy/USOM Belgrade notes that the Yugoslav estimate fails to mention already available means of financing any deficit (viz., approximately \$30 million carry-over from previous US aid; at least \$20 million drawing rights on existing credits; \$10 million under Italian reparations, etc.). Taking these availabilities into account, the Embassy estimates that the regular deficit (i.e., exclusive of the Yugoslav extraordinary expenditures category) could be reduced to about \$13 million. This figure could be reduced to \$4.2 million if medium term debts were rescheduled as requested by the Yugoslavs and every available resource utilized during the coming year. The mission also describes the projected extraordinary expenditures deficit as evidence of Yugoslav determination to carry out deliberately chosen policies of building up reserves and undertaking new investments. It suggests that these policies demonstrate that the Yugoslavs have no intentions of restricting domestic consumption and investment to levels which can be accommodated within their own resources.

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and policies. So long as Tito wishes to preserve his independence of action, he will almost certainly take advantage of any opportunities to check the development of undue economic dependence on the Bloc and will probably expect Western cooperation to this end. Moreover, the psychological impact of curtailment of aid is likely to be reduced by the fact that Yugoslav leaders have always believed that Western support was motivated

by self-interest rather than by any real sympathy for the Tito regime. They are probably prepared to accept a substantial reduction in military aid. A substantial reduction in economic aid as well would probably cause considerable resentment and would somewhat impair Tito's bargaining position as against Moscow, though it would not in itself impel the Yugoslavs to move politically closer to the Bloc.

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