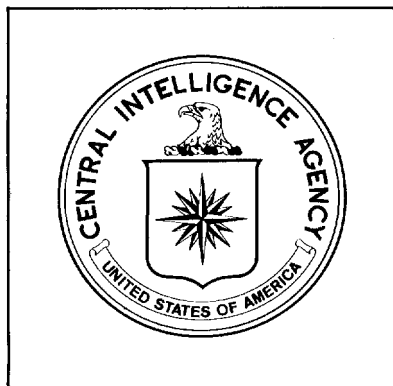


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SOVIET UNION - EASTERN EUROPE

This publication is prepared for regional specialists in the Washington community by the USSR - Eastern Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Yugoslavs Rankled Over Slow Progress
on Western Arms Deals

The Yugoslav military is showing signs of increasing frustration over the meager results of its efforts to procure modern weapons in the West and its consequent dependence on Soviet weaponry.

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Yugoslav Defense Minister Ljubicic took pains to stress that the delivery of modern Soviet arms to Yugoslavia earlier this year has not allayed Belgrade's wariness of Moscow or lessened its desire to expand military cooperation with Western countries.

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Ljubicic was also eager to spike speculation that the new arms deal with Moscow signified a closer military link with the Soviets. Although he admitted that there are a "few" Soviet technicians in Yugoslavia to help assemble the new equipment, he insisted that no close Soviet contact with operational units is permitted. Ljubicic rejected suggestions that the 1974 naval repair law was tailored to give the Soviets a naval "presence" in the Adriatic and reiterated his standing invitation for US naval vessels to take advantage of the repair facilities.

Ljubicic sought to counter US fears that classified material might find its way into Soviet hands. He declared that the Yugoslavs are "fully capable of protecting the means of their independence," and maintained that the civilian, not the military, sector was responsible for any diversions of restricted technology to the East in recent years.

The defense minister stressed the same themes during a July 7 speech to veterans in Serbia. He complained that foreign governments verbally support Yugoslavia's independence but nonetheless impose limitations on arms sales to Belgrade and make economic difficulties for Yugoslavia. He stressed that "if what they say were true, they would show it in deeds not words."

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Despite his interest in Western arms, Ljubicic is concerned over their high cost. Belgrade's plans to install a French-made surface-to-surface naval missile on a new patrol boat were recently scrapped because the French system was too expensive. The Soviets are reportedly going to furnish a less-desirable--but cheaper--missile.

Ljubicic, who began a four-day visit to London yesterday, reportedly will close a modest \$10-million deal for British military equipment. If he is successful, the Yugoslavs will undoubtedly hail the deal as evidence that they are not wholly dependent on the USSR for sophisticated equipment. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)



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USSR Studies Joint Economic Ventures

The Institute of the USA and Canada has completed a study of the feasibility of joint ventures in the USSR with foreign firms, according to information received by the US embassy. The study apparently recommends that the USSR enter into such ventures "as soon as possible," but that foreign partners not be allowed to become "holders of property" in the country.

This restriction is an indication of the considerable problems that still stand in the way of such projects. On the ideological side, it is difficult to reconcile foreign equity holdings with Marxist dogma that all means of production should be held solely by the state. On the practical side, a key problem relates to the management role of a foreign partner in running a Soviet enterprise.

The fact that serious study of the issue has been ordered, however, does indicate some high-level interest in, if not support for, such an innovation. There is some corroboration of this interest in the remarks of a Romanian embassy officer. He claims that middle-level economists and planners in the Soviet Union have been ordered "from above" to conduct an "intensive" investigation into the Romanian experience with joint ventures with a view to possible application in the USSR. The Romanian reports that enthusiasm is exceptionally high at the middle-level of officialdom, but that ideological objections at "the political level" will prevent innovation in the near or medium term. (CONFIDENTIAL)

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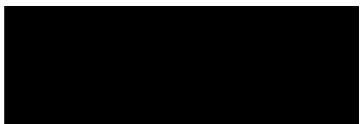
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Soviets Lukewarm on Indian Ocean Arms Control

The US senatorial delegation that visited Moscow last week did not get very far in attempts to sound out Soviet attitudes toward joint US-Soviet naval limitations in the Indian Ocean. Soviet officials, clearly caught off guard, responded with platitudes about the USSR's willingness to negotiate, but added that the negotiations must take into account the views of other interested parties. Party Secretary Ponomarev listed more general Soviet arms control proposals dating back to 1946, and accused the US of trying to justify a huge arms buildup just because the USSR sailed into the Indian Ocean. The head of the USA Institute, G. Arbatov, suggested that the talks might begin with Moscow's proposal for banning nuclear-armed ships from the Mediterranean--clearly a non-starter. Two days later, Arbatov approached Senator Hart to correct what he said was perhaps a misunderstanding of the Soviet position. Arbatov said that the USSR was "of course" interested in talking to the US about limiting naval deployments and implied that these talks should be bilateral.

Arbatov's "correction" is probably nothing more than an effort to persuade the Senators to disapprove appropriations for an expanded base at Diego Garcia. If the Soviets have some genuine interest in limiting the US-Soviet naval competition, it is clear that they were not prepared to push the idea with the Senators. (CONFIDENTIAL NO FOREIGN DISSEM/BACKGROUND USE ONLY)



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Bulgaria-Greece:
Prime Minister Karamanlis Visits Sofia

Athens and Sofia are both pleased with the visit of Prime Minister Karamanlis to Bulgaria from July 2 to 4, but they apparently hold differing views on Balkan cooperation.

Sofia favors a bilateral approach concentrating on economic projects, but Athens is evidently pushing a form of multilateral cooperation that carries political overtones aimed at isolating Ankara. Bulgarian party chief Zhivkov underscored this difference when he reiterated Sofia's desires for "good neighborly" bilateral relations with all Balkan states, but avoided endorsing any multilateral political arrangements. Zhivkov said that Bulgaria would participate in such "safe" multilateral areas as tourism, science, culture, and athletics. In contrast, Karamanlis pointedly stressed the need for a "network of creative cooperation."

Despite their differences, the two leaders were able to find some common ground. They took identical positions on Cyprus--thereby contributing to Turkey's further isolation--and both called for a speedy convocation of the final phase of the European security talks.

According to Bulgarian press reports--which may have been selectively edited--the Greek leader apparently took time out from the discussions to poke a few public jabs at the Yugoslavs. Belgrade was disinclined to go along with the schemes for Balkan cooperation that Karamanlis put forward during a visit last month (*Staff Notes*, June 18). In an oblique reference to Greece's own historical dispute with Bulgaria over the Macedonian question, Karamanlis said that neither territorial claims nor minority problems

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hamper Greek-Bulgarian relations. The implication was that Greek-Bulgarian relations have transcended the historical differences which still hinder relations between Sofia and Belgrade. Athens has thus far not reported the remarks. (CONFIDENTIAL)



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1975 Romanian-Chinese Trade

25X6 . Trade between Romania and China will total \$320 million this year, [REDACTED]

[REDACTED] This is nearly 30 percent higher than the amount called for by the 1974 trade agreement. The expansion of trade reflects Romania's desire to import raw materials, semifinished goods, and foodstuffs at lower prices than it must pay its Western trading partners. Peking, which imports machine tools, vehicles, and marine and drilling equipment from Romania, is interested in increased trade largely because it wants to expand its influence in the Balkans.

Romania's trade with China between 1971 and 1973 grew at an average annual rate of 8 percent, while its trade with all countries increased by 19 percent. Romania ran a deficit of \$7.5 million with China in 1973. Although official data have not yet been released, a similar deficit is likely for 1974.

A greater volume of goods, rather than higher prices, will probably account for most of the increased trade this year. In 1971, the two countries concluded a trade agreement for 1972-75 which provided for trading at "stopped prices." The Chinese recently indicated, however, that higher prices will be applied to some goods.

Despite the growth of bilateral trade, China will remain one of Romania's less important trading partners, accounting for only some 4 percent of total trade. The USSR remains Romania's single most important trading partner, with 1974 trade at \$1.6 billion. (CONFIDENTIAL)

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Soviet Visitor Highlights During June

Soviet agricultural exchange groups arriving in the US continue to include at least one responsible official from the central Communist Party apparatus. These men, who usually travel under a light but plausible cover, usually represent the party's Agriculture Department and sometimes are the de facto ranking member of their delegation. The most recent cases in point--delegations that came to study cattle feeding practices and agricultural supply systems--arrived here during June. Vasilii Martynovsky, a sector head in the Agriculture Department, accompanied the agricultural supply entourage, which included a deputy minister of agriculture and the first deputy chairman of Soyuzselkhoztekhnika, the Soviet agricultural supply organization. One member of the cattle feeding group was last noted as first secretary of a district party committee in Krasnodar Kray.

At least two other high-level exchange delegations arrived during June: Deputy Minister of the Petroleum Industry Dzandar Takoyev led a team of oil specialists and administrators that met with officials of several US companies and attended a meeting of the US-USSR Oil Working Group. Deputy Premier and Gosstroy Chairman Ignatyi Novikov accompanied a housing exchange delegation to this country and met briefly with President Ford.

In commercial activity during the month, Soviet visas, applied for and authorized, fell from around 100 in May to about 80. Over half of that number were in connection with contracts for American automotive equipment and technology or for talks with the Occidental Petroleum Corporation concerning an International Trade Center in Moscow, which the US company is helping to build. Other June highlights included:

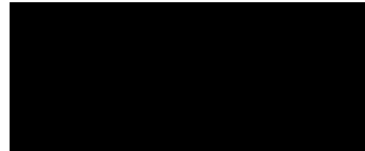
--A representative of the All-Union Aluminum and Magnesium Institute, who was scheduled to

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visit the American Magnesium Company. The institute is providing American Magnesium with start-up services for an electrolytic magnesium production process, which is reputedly more efficient than the company's old process.

--Valentin Polyakov, a prominent surgeon and bone tissue specialist, who visited the Satra Corporation and attended a Medeksport exhibition in Atlantic City. Medeksport exports and imports medical equipment. (UNCLASSIFIED)



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