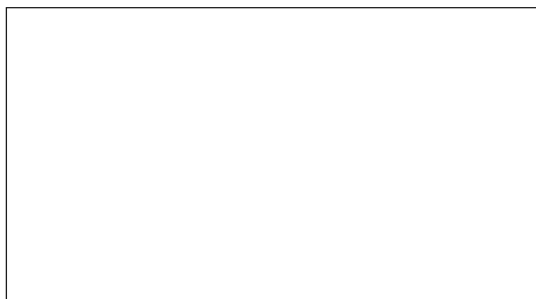


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There is no evidence that you have seen this and you may wish to look at least at the first two pages, which summarize Rusk's recommendations to the President re Yugoslavia.



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17 January 1962

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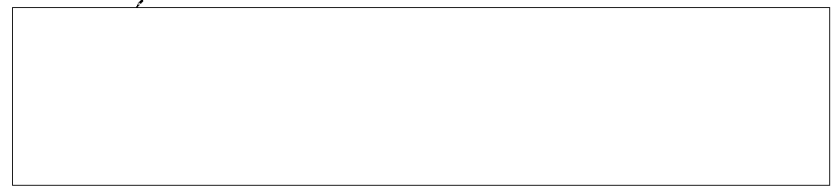
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**Remarks:**

Attached memoranda, and Memorandum for the President from Mr. Rusk forwarded for your file.

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Paper for General Cabell -- for meeting on  
Monday, Jan. 15, with the President

From Mr. McGeorge Bundy's office.

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## MEMORANDUM FOR THE PRESIDENT

Noted by DD/I  
17 JAN 1962

**SUBJECT: U. S. Policy and Assistance Programs  
Toward Yugoslavia**

Attached for your use at the meeting on Yugoslavia to be held Monday, January 15, is a paper with three annexes embodying the Department's recommendations on U.S. policy and assistance programs toward Yugoslavia. Annex A is a review of U.S. policy. Annex B is a paper on U.S. military sales to Yugoslavia. Annex C deals with export control policy toward Yugoslavia.

Our principal recommendations are given on pages three and four of the attachment and can be summarized as follows:

1. Technical Assistance: A technical assistance program in the magnitude of \$500,000 to \$750,000 should be continued in the current fiscal year under the Development Grant category of AID funds. The desirability of continuing technical assistance if any, beyond FY 1962 will be the subject of review after an evaluation by Ambassador Kennan of the effectiveness of the program.
2. Development Loans: We will encourage Yugoslavia to rely henceforth on lending sources other than AID, while indicating the willingness of the U.S. Government, as a transitional measure, to accept further loan applications for consideration. Within the U.S. Government it would be understood that loan assistance would be in the range of \$10 million to \$20 million of which the DLF portion would not exceed \$10 million. The Export-Import Bank will be instructed to give priority attention to Yugoslav applications. The terms of DLF loans should approach those of the Export-Import Bank.
3. P.L. 480: P.L. 480 agreements with Yugoslavia should be considered from time to time to meet minimum Yugoslav consumption requirements. With an increasing shift in the future from

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Title I to Title IV, Title III activities should be phased out over the next several years.

4. Military Sales: We should continue to sell Yugoslavia military equipment and spare parts and to train Yugoslav military personnel in the U.S.

5. Export Licensing: Yugoslavia should be considered on the same basis as non-Soviet Bloc nations for export licenses.

Dean Rusk

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SECRETREVIEW OF US POLICY AND ASSISTANCE PROGRAMS  
IN REGARD TO YUGOSLAVIAI. Present Status

## 1. Problem:

As a result of developments since last fall the Department of State has been reexamining the various aspects of our relations with Yugoslavia. In accordance with the President's request at the NSC meeting on October 13 the Department has reviewed all types of economic assistance to Yugoslavia and prepared recommendations for the Council in regard to future assistance, on the basis of a review and restatement of US policy toward that country. In connection with this review the Department has had an extensive exchange of views with Ambassador Kemman and there have been talks with the British on policy toward Yugoslavia. In addition to the consideration of general policy toward Yugoslavia this review has focused on three main problems: (1) developmental assistance; (2) policy on exports to Yugoslavia and (3) sales of military items.

## 2. Justification of Present US Policy:

Current US policy has been highly successful in avoiding undesirable alternatives. If it were not for the policy pursued over past years Yugoslavia might well have been forced back into the Bloc. With such a development, the Red Army today might now be in Trieste, on the Dalmatian coast and on the Greek-Yugoslav border. The consequences of this for Greek and Italian political stability could be serious indeed. Similarly, Austria would have been almost surrounded by Red-dominated territory, and the hold of Russia on the Eastern European satellites would have been more complete. The Soviet empire would have then thrust deeper into Western Europe and affected its political stability.

Instead of such a possible situation, Soviet penetration of Europe has been pushed back geographically. We have witnessed settlement of the Trieste problem, and the establishment of more friendly relations and better cooperation amongst Yugoslavia, Greece and Turkey. Austrian-Yugoslav differences over minorities have been submerged in the interests of more cordial relations. Moreover, Yugoslavia now has close relations with Italy and very prosperous economic ties exist between the two countries.

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Finally, our policy has resulted in increased integration of Yugoslavia into the Western economy, as evidenced by its participation in OECD, GATT, IMF, IBRD and other multilateral economic organizations. This has contributed to a substantial modification of the Communist system in Yugoslavia in the direction of decentralization and liberalization.

**II. Conclusions**

The Department of State has undertaken at Annex A a reexamination of US policy toward Yugoslavia. The examination includes a consideration of Yugoslavia's international position, the benefits derived by the US from this position, our policy objectives and practices in dealing with Yugoslavia and the role of assistance programs. The Department has also reviewed the specific assistance programs being carried out. The following conclusions and recommendations emerge from this examination and review.

1. The Yugoslav Government continues to maintain its national sovereignty and a position wholly independent of Soviet control. It continues to pursue policies directed at strengthening its independence and advancing its development and international position.

2. As a neutralist country active among the nonaligned states Yugoslavia frequently takes positions on international issues contrary to Western attitudes and interests. Although these positions are often along the Soviet line this is also true of other neutralists such as India and Indonesia.

3. Separated from the bloc Yugoslavia is developing its own national system in the direction of decentralization and in

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increasingly closer relation to the West. Yugoslavia has to a considerable extent departed from Soviet doctrine and opened itself to Western ideas and institutions. These changes in Yugoslavia's internal system and in its relations with the free world have become institutionalized so that there appears to be no road back to the bloc provided that Western policies toward Yugoslavia continue and no radical change overtakes the international situation.

4. The essential aspects of US policy have been to assist Yugoslavia to build a firm secure base of national independence and development and to exert our influence upon the evolution of the Yugoslav system. This bold and productive policy formulated in 1949 after Tito's break with the Soviets has been maintained by three administrations. It is still a successful policy bringing the US substantial benefits.

5. Yugoslavia's principal significance from the standpoint of US interests remains that of an independent Communist regime which successfully defied Soviet imperialism. The evolution of the Yugoslav system toward greater liberalization and closer association with the West and the dramatic economic growth achieved in Yugoslavia have fortified Yugoslavia's role as a disruptive element in the international Communist movement and as a source of encouragement to nationalist anti-Soviet tendencies in the bloc.

6. It is important for the US to continue to pursue this basic policy including the extension of economic assistance as needed to continue to derive the benefits from Yugoslavia's independent position and national development.

7. The maintenance of this basic policy permits tactical adjustments including adjustments in economic assistance so long as these would not impede the pursuit of our long-range goals of expanding relations with Yugoslavia and influencing its institutional growth in a Western direction. Such adjustments may occur for the purpose of exerting a positive force on developments in Yugoslavia of direct interest to the US and of re-enforcing our reaction to positions taken by the Yugoslav regime in serious conflict with US interests.

8. Consultations with certain of our allies having vital interests in Yugoslavia, notably the Italians and the British have revealed a common approach to Yugoslavia. The UK in particular was concerned that there be no abrupt change in our Yugoslav position which would prejudice the general Western interest in an independent Yugoslavia.

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### III. Recommendations

1. That a technical assistance program be continued in the current fiscal year under the Development Grant portion of the AID. The program should be directed towards the exposure of key Yugoslav personnel to Western ideas and institutions. In view of the passage of time in the current fiscal year we envisage obligation this year of from \$500 to \$750 thousand as opposed to the program of \$2.8 million which had been earlier envisaged in the Department of State. The program this year will perforce be limited to the financing primarily of the travel to the US of Yugoslav technicians and the sending of some American contract technicians to Yugoslavia. The desirability of continuing technical assistance beyond FY 1962 will be the subject of review, including an evaluation by Ambassador Kennan of the effectiveness of the program.

2. That the Yugoslav Government be informed that because of the present stage of the development of its economy and the new criteria of US aid legislation, we believe that it should henceforth look primarily to established international lending agencies, including the Export-Import Bank, rather than to the AID for development loans. However, as a transitional measure, the US would be prepared to consider further loan applications from Yugoslavia in the current fiscal year. (It is to be understood within the US Government that such loan assistance for FY 1962 would be in the range of \$10 to \$20 million of which AID development loans would not exceed \$10 million. The terms of AID loans should approach those of the Export-Import Bank. The Export-Import Bank should be instructed to give priority attention to applications for financing development projects in Yugoslavia in this and in succeeding years.) The Yugoslav Government should also be informed of our readiness, through our participation in the Development Assistance Committee of the OECD and in other international bodies, to lend sympathetic support to Yugoslav efforts to obtain loans from other lending institutions. This approach would enable us to continue our identification with Yugoslavia's development efforts while at the same time keeping to a minimum the use of AID resources.

3. That Title I PL 480 agreements be considered with Yugoslavia in the future as may be necessary from time to time to meet minimum consumption requirements for foodstuffs. We should promote the sale of industrial type agricultural commodities such as cotton and tallow under Title IV and inform the

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Yugoslavs of our intention to shift increasingly in the future from Title I to Title IV. Our objective should be to encourage the Yugoslavs to develop their agriculture and other aspects of their economy so as to eliminate as early as possible the need for PL 480 agreements. We should also continue to support over the next several years the activities of US voluntary agencies in Yugoslavia through Title III of PL 480. Our support should be phased out in a manner which will encourage the maintenance of certain of these activities in Yugoslavia on a self-sustaining basis.

4. That we continue to permit the Yugoslavs to purchase such military equipment and spare parts as are necessary to insure that Yugoslavia will avoid dependence on the Soviet bloc for such items. We should also permit training of Yugoslav military personnel in the US on a reimbursable basis. Each new Yugoslav request for equipment and training will be considered at an appropriate responsible level in the Departments of State and Defense. A background paper is attached as Annex B.

5. That Yugoslavia continue to be considered on the same basis as non-Soviet bloc nations in evaluating Yugoslav requests for US export licenses so long as Yugoslavia's export control practices remain generally consistent with the objectives of the multilateral trade controls imposed against the Soviet bloc. A background paper is attached as Annex C.

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## REVIEW OF US POLICY TOWARD YUGOSLAVIA

### The Yugoslav Situation

A review of US policy toward Yugoslavia must begin with an examination of the essential features of Yugoslavia's present position in the world and must include an appraisal of the significance of that position for the US.

In 1948 Yugoslavia under Tito's leadership broke away from Soviet control and the international Communist movement essentially over the issue of national independence. Since that time Yugoslavia has vigorously maintained its national identity and a position wholly independent of the Sino-Soviet bloc. Yugoslavia has done so in the face of political, economic and ideological warfare conducted against it by both Moscow and Peiping. Yugoslavia has steadily steered a course to avoid the danger of the apparently ultimate Soviet objective of reasserting some form of effective control over the country. Independence from Soviet control has been emphasized by Yugoslavia's participation as either a member or an observer in a number of Western-oriented international organizations (GATT, IMF, OEEC and the new OECD) in which the USSR does not participate and which are in some respects obstacles to Soviet objectives.

Yugoslavia has also made consistent efforts to maintain its independence against any economic or political domination from the West. Yugoslavia is a neutral or nonaligned country and has been active as a leader in the large grouping of uncommitted states in order chiefly to avoid isolation and increase its influence in international affairs. It frequently takes positions on international issues contrary to Western attitudes and interests but this is also true of other neutral countries which are not avowedly Communist. In the UN, for example, Yugoslavia's voting record corresponds to that of India, Indonesia and the UAR.

Tito and the principal regime leaders grew up in the school of old fashioned Communism. As a Marxian Socialist of this school Tito favors the concepts and symbols of Communism. He wishes to develop his country along socialist lines and he has never abandoned the Marxist Leninist concept of socialism as an international cause. The West must thus face the prospect that so long as Tito remains in power, and so long as the world situation remains substantially what it now is, the positions taken by Yugoslavia on various world issues will generally be very close to those of the Soviet Union. For the immediate

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future the Yugoslavs may be expected to espouse the anti-Western cause in all questions reflecting the issues of "colonialism" or "neo-colonialism". The significance of regime anti-Western statements and positions as well as the proper estimation of Yugoslavia as a force in world affairs must, however, take into account the following factors:

(1) They represent primarily the thinking of the older and out-going generation of Yugoslav Communists; (2) frequently these positions are adopted for tactical reasons and do not represent the real convictions even of the top leaders; (3) these positions are not always reflected in policy at the practical level and behind this front of distrust and defiance toward the West there has proceeded a significant development of cultural, economic and personal relationships with Western countries. Above all, as time goes on power in Belgrade will inevitably gravitate into the hands of people who have less commitment to old fashioned Communism, more understanding for Western civilization and greater appreciation of the value of relations with the West.

In spite of its professed Communism and uncommitted status, forces have been at work since 1948 drawing Yugoslavia toward the West. Economically Yugoslavia is dependent upon the West. The German Federal Republic and Italy are Yugoslavia's most important trading partners while only a quarter of its foreign trade is with the bloc. It has improved its political relations with the West since 1948 by such steps as resolution of the Trieste issue, shelving the quarrel with Austria over minority and border issues, ceasing its support of the Greek civil war and entering into the Balkan Pact with Greece and Turkey. Ties with European economic organizations have developed. Cultural, educational, informational and scientific exchange flourish with Western Europe and the US.

Internally, Yugoslavia has evolved an economic and political system that differs substantially from that of the Soviet Union. This evolution away from the bloc pattern has been impelled by the extent of Western influence upon Yugoslavia since 1948 and by the inescapable need to solve urgent problems for survival in separation from the Communist camp. Receptive to Western ideas and practices, the Yugoslav pragmatists have modified or abandoned elements of orthodox Communist doctrine when confronted with the necessity to solve practical problems. At the same time Yugoslavia has emerged from economic backwardness and developed into a politically stable country.

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The regime has liberated itself from the Soviet obsessions with completely standardized planning and administration, forced collectivization of agriculture, rapid expansion of heavy industry at any cost and insulation of the national economy against the influence of world markets. The Yugoslav economic system has undergone a process of decentralization resulting in a distinctive type of mixed economy with definite elements of competition, individual incentive and a market price system. The value of independent initiative and reward have been recognized in the effort to stimulate economic development. Yugoslavia has achieved a rate of economic growth greater than anywhere in the Sino-Soviet bloc. The results have apparently not been lost upon the bloc. These developments have been naturally accompanied by the progressively deeper involvement of Yugoslavia in the world economy and the growth of closer economic relations between Yugoslavia and the free world.

Although there has been less change in the political system increased powers have been granted in recent years to local government units and attempts have been made to draw the population into the execution of policy. This decentralization has been controlled and has not so far weakened the Party's dominant position but the long-term effect of decentralization could erode this position. The strength of the Yugoslav regime lies in identifying itself with Yugoslav nationalism, moderating the severities of typical Communist rule, opening Yugoslavia to a large extent to the outside world and taking into account the capabilities of the individual.

These developments have produced a wide gulf between Yugoslavia and the Soviet bloc which, if Western attitudes and policies toward Yugoslavia continue, offers no apparent prospect of being bridged. The fundamental changes in Yugoslavia's internal system and in its relations with the free world have become institutionalized. So long as no radical change overtakes the international situation there appears to be no road back to the bloc and the gravitational forces that work through these institutional arrangements should continue to move Yugoslavia steadily toward the West.

### The US Interest in the Yugoslav Situation

Despite the frequent differences that will inevitably arise between the US and Yugoslavia it is important that the US never lose sight of its own basic interest in the continued independence of Yugoslavia from Soviet control. The separation of Yugoslavia from the Communist bloc has brought major political advantages to the US and the Western countries in the world struggle against

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Sino-Soviet imperialism. Tito's assertion of independence set in train a series of developments bringing into question the basis on which the world Communist movement had previously functioned, i.e., the identity of Moscow's interests and the interests of international Communism; the unchallenged political and ideological control by Moscow over every Communist party and Communist regime; and the slavish copying of all Soviet methods and institutions. Yugoslavia's split from the bloc and development of its own institutions have profoundly disturbed the political and ideological unity of the international Communist movement. Within the bloc itself the effect has been to force a modification of Soviet policies so as to make control over the dominated countries of Eastern Europe looser. Definite encouragement has been given to nationalist anti-Soviet tendencies among these countries which was dramatically demonstrated by the Hungarian uprising and the Polish October of 1956. Yugoslavia's successful resistance against Soviet imperialism has caused dissension and bitterness within the Communist bloc. Yugoslavia continues to be the object of fierce attacks from the Soviets, Chinese, Albanians, and other members of the bloc for "deviationism" and "revisionism".

In a narrower strategic sense Yugoslavia's assertion of national independence has afforded an obstacle to the advance of Soviet imperialism in Southeastern Europe and aided the restoration of political and economic stability in that area. Its separation from the bloc has provided a buffer for NATO in the Mediterranean especially for Italy. The defection of Yugoslavia not only opened the way for Greek recovery from the Communist threat but isolated Albania with the later possibility of its peculiar challenge to Soviet domination.

In relations with the nonaligned countries of Africa and Asia the Yugoslavs have also opposed Soviet imperialist interests by warning leaders of these states about the dangers to national independence from becoming too reliant on Soviet and Chinese trade or aid. The Yugoslavs have cited their own example of how the Soviets have used both trade and aid in the effort to subject a country to Soviet domination. In contrast the example of US-Yugoslav relations has shown other uncommitted countries that the US does not insist on political conditions in the extension of economic aid and has facilitated the development of aid programs with such countries.

It is of great importance to the US that Yugoslavia remain independent of Soviet imperialism, that it continue to present to the bloc a magnetic picture of successful national independence and dramatic economic growth, that it continue its role as a disruptive element in the international Communist movement and that it continue to serve as a classic example of the dangers of becoming economically dependent upon the Soviet Union.

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## US Policy

US policy toward Yugoslavia has in brief the following objectives:

1. To assist Yugoslavia to build a firm, secure base of national independence and development, and to support the determination that Yugoslavia has shown to preserve and strengthen its independent status.
2. To exert an influence for the evolution of Yugoslavia's political, economic and social institutions along more democratically representative and humanistic lines with increasing ties to the West.
3. To follow a course which will bring the US maximum benefit from Yugoslavia's role as an independent Communist or socialist state outside the Communist bloc which acts as a divisive force on the political and ideological unity of the Soviet dominated international Communist movement and tends to stimulate the Soviet dominated Eastern European Governments to seek greater freedom of action from Moscow in shaping their own institutions and policies.

In seeking to accomplish these objectives the US has maintained a relationship with Yugoslavia generally similar to that maintained with other neutral nations. We have pursued friendly and frank official as well as personal contacts, conducted extensive information activities in Yugoslavia and have carried on a broad exchange program. Yugoslav requests for economic and technical assistance have been considered on their merits in relation to our appraisal of Yugoslav needs and of the potential involved for contributing to the realization of US objectives.

This policy was formulated in the period following the Tito break with the Cominform in 1948. It was a bold, imaginative policy of that time requiring courage, foresight and a clear perception of our long range interests and objectives. The policy has been applied with consistency during three administrations. It has admittedly involved a considered risk for the US both in political and in economic terms. It has been subject repeatedly to certain domestic pressures and attack which usually flare up when the Yugoslav Government makes offensive pronouncements or when international tension increases. Nevertheless the policy has been successfully explained and defended by the Executive Branch. As a result this policy has, over the years, been supported by informed public opinion and by Congress in a long series of legislative actions.

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### Assistance Programs in US Policy Toward Yugoslavia

The US has utilized assistance programs preeminently as an instrument to help achieve our political objectives in regard to Yugoslavia. This basically has been a short tether approach and the programs have been adjusted from year to year in order to avoid encouraging the Yugoslavs to take for granted the indefinite continuation of various amounts and forms of assistance. Our purpose has been to move gradually toward a basically commercial relationship as Yugoslav independence and economic advance are consolidated. In this approach the Department supports granting to Yugoslavia all facilities for normal commercial and financial exchange with Western countries. Until a basically commercial relationship is attained Western countries should share in financing and assisting Yugoslavia's industrial development with a view to encouraging a continued rate of growth at least as high as that of Eastern European countries in the bloc.

Between the fiscal years 1949 and 1961, the US furnished to Yugoslavia approximately \$2 billion in various forms of grant and loan economic and military assistance. At the termination of the grant military assistance program in 1957, the US has furnished some \$700 million worth of supplies and equipment, most of which was obsolescent by US and NATO forces standards. Economic assistance has taken the form of grants and loans in support of Yugoslavia's balance of payments, sales of agricultural commodities, technical assistance, development loans and support of US voluntary relief agencies operating in Yugoslavia. Of the \$1.3 billion in economic assistance provided through fiscal year 1961, almost \$1 billion has consisted of surplus agricultural commodities, \$160 million has consisted of industrial raw materials and \$180 million has consisted of equipment for industrial development projects. Thus of the total of \$2 billion, some \$1.7 billion has consisted of surplus agricultural commodities and excess military equipment.

US economic assistance has been one of the principal factors in enabling Yugoslavia to resist the effects of Soviet economic pressures and to complete its successful schism from the bloc. Our assistance to Yugoslavia has served to dramatize both the Soviet use of economic pressures and the US policy of assisting nations that are determined to defend their national independence against Soviet efforts to destroy it. Yugoslavia itself has publicly and privately contrasted their treatment at the hands of the Soviet Union and the US. This contrast in treatment has

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not been lost upon other non-aligned countries. This assistance is identified in the minds of leading Yugoslavs with their aspirations for economic development and national advance. It provides a lever for exerting our influence on the evolution of institutions in Yugoslavia.

US assistance to Yugoslavia has thus had important consequences in connection with the internal development of the Yugoslav system. Provision of US agricultural commodities relieved the pressure on the Yugoslav regime which in turn abandoned its coercive policies towards the peasantry. Freed from the restraints of Soviet dogma the Yugoslav regime came to realize that collectivization was not the answer to its agricultural problem. While the regime has not abandoned its eventual goal of socialization of agriculture, it is now proceeding toward this goal by means of incentives toward voluntary cooperation.

US assistance activities in Yugoslavia have inevitably involved the opening up of the country and exposure of its officialdom and population to Western ideas and institutions. The effect of this can be seen in the increasing liberalization and decentralization of the Yugoslav economic system. This past year, for example, Yugoslavia undertook a reform of its foreign trade and foreign exchange system, which will enable it to undertake a full range of obligations toward the GATT.

From being a model Soviet satellite Yugoslavia has become economically integrated with and dependent upon the West. Its institutions have evolved to the point where Yugoslavia can with little difficulty participate in Western economic organizations. The kind of relations with Yugoslavia made possible by our economic assistance has opened doors outside the strictly economic field to our entry with extensive information activities and exchange programs. When the achievements of our Yugoslav policy are compared to the real costs of the program (i.e., total aid less surplus agricultural commodities and excess military equipment) it reinforces the conclusion that Yugoslavia has represented a very worthwhile investment for the US.

### Conclusion

In reviewing this basic policy and its advisability at the present time it is important to note that this policy has been successful. It has yielded and continues to yield the significant benefits to the US outlined above: deriving from Yugoslavia's resistance to Soviet imperialism. It is also essential to give careful consideration to those powerful tides constantly at work bringing Yugoslavia closer to the West. Tito's leadership is about to pass to a younger generation impatient to shape by experiment and new ideas the course of development. Potentialities for constructive change are increasingly found among

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among this rising group of Yugoslav leaders. Although a more definite shift to liberal and humanistic socialism cannot be predicted with assurance it would be a serious mistake to ignore or dismiss such tendencies that are already apparent. Any basic departure from this US policy would prejudice these tendencies and diminish hopes of the more liberal and impressionable elements in Yugoslavia we seek to encourage. The Department finds no alternative to this policy that will continue to produce the advantages mentioned from Yugoslavia's status as a successful independent state. If that status were to be impaired as the result of a basic change in US policy it would be a real gain for the Soviet Union and a substantial loss for the US.

Adherence to our basic policy would not preclude tactical adjustments to exert positive influence upon developments in Yugoslavia of direct interest to the US. Nor would it inhibit steps to express our unfavorable reaction to anti-Western positions which the regime might take in serious conflict with US interests or to encourage the regime to take a more balanced view of important international issues. Some limitation of economic aid to Yugoslavia could be considered for these purposes so long as it would not impede the pursuit of our long range goals of expanding relations with Yugoslavia and influencing their institutional growth in a Western direction.

The Department concludes as a result of this review that the fundamental interests of the US are served by continuing to support Yugoslavia's independent status in defiance of Soviet imperialism. This policy should be maintained since continuity is a vital factor in the success of such a policy. A large investment has been made by the US over three administrations in assisting Yugoslavia to survive and develop as an independent state. It has become a show window of the successful challenge of Moscow's imperialism. The US should continue to reap the benefit of this investment by continuing its present policy.

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US MILITARY SALES TO YUGOSLAVIA

US grant military assistance to Yugoslavia was initiated in FY 1952 and from that time until the program's termination in 1957 US military assistance to Yugoslavia totaled about \$700 million. Prior to the initiation of this assistance program Yugoslav armed forces were loosely organized and poorly equipped with obsolete German, Italian and Russian equipment. The US program provided initial equipment, follow-on spares, supplies, ammunition and training to support 8 divisions, 17 air squadrons and 37 naval vessels (11 of which were provided under the assistance program).

In its later years the program became a source of friction between the US and Yugoslavia. In the US, the program was subjected to severe criticism in the Congress and by some segments of public opinion. Repeated suspensions or slow-downs in deliveries, following dissatisfaction with Yugoslav positions on international issues, irritated the Yugoslavs. There was also evidence that the program was a source of embarrassment to the Yugoslav government since its position as a recipient of grant military aid in the US was regarded as inconsistent with its policy of nonalignment between the two major power blocs. In November 1957 the Yugoslavs refused to sign a declaration by Communist parties meeting in Moscow, which recognized the primacy of the USSR. In December 1957 the Yugoslav government requested that the military aid program be terminated, having apparently concluded that the composition and rate of US arms deliveries no longer justified the difficulties the program caused in its foreign relations.

At the same time the Yugoslav government demonstrated that it did not wish to be dependent in any way upon the Soviet bloc as a source of military supplies and equipment. It refused, for example, Soviet offers for MIG aircraft. The Yugoslav government preferred instead to equip its military establishment out of its own production, where possible, and through purchasing and licensing agreements with Western countries.

In the light of the determination of the Yugoslav government to avoid dependence upon the Soviet bloc for military equipment and the fact that Yugoslav forces had become largely US equipped the US Government decided that US interests would be served if Yugoslavia were permitted to purchase certain military equipment and spare parts from the US. Accordingly, there was concluded with Yugoslavia in August 1959 a military sales agreement under which Yugoslavia became eligible for

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purchases of military equipment under the Mutual Security Act. Under the terms of this agreement the Yugoslavs have undertaken to use the materials and equipment purchased from the US for defensive purposes and to safeguard the security of the items purchased. They also agree not to retransfer items to other countries without prior US permission. Since 1959 the Yugoslavs have purchased under the sales agreement various spare parts and minor items of equipment and a total of 278 jet aircraft.

Yugoslavia's armed forces have no significant offensive capability. The Army is capable of containing and eventually repulsing an attack by one of its satellite neighbors. If subjected to a nuclear attack by the Soviets and its satellites the Yugoslav Army could resist for 30 days. The Navy is organized to provide tactical and operational support to the Army. It has only a limited mine-sweeping, mine-laying amphibious and anti-submarine warfare capability. The Air Force has a limited capability to perform missions of air defense and ground support for the Army. It would not function for more than 7 to 14 days of combat without outside logistical support.

Yugoslavia has some industrial capacity for the production of ships, artillery, and light weapons. It has no capacity, however, for the production of modern military aircraft or weapons. While the Yugoslavs have demonstrated their determination to avoid dependence upon the Soviet bloc for military equipment, refusal by the US and other Western countries to satisfy Yugoslavia's minimum defensive requirements could drive the Yugoslavs to seek military equipment wherever they could get it. It is our opinion, therefore, that US interests would be served by continuance of the policy of selling to the Yugoslavs limited amounts of US military equipment and supplies not essential to our own requirements as may be needed to avoid Yugoslav dependence on the Soviet bloc.

EXPORT CONTROL POLICY TOWARD YUGOSLAVIA

The United States has treated Yugoslavia as a non-Soviet bloc country for export control purposes for many years. The nature of Yugoslavia's trade with the Soviet bloc is such that it can be said to be generally consistent with the objectives of the multilateral trade controls imposed against the Soviet bloc, although Yugoslavia could not be expected to associate directly with the Coordinating Committee (COCOM) operation. Yugoslavia's trade also is consistent with the provisions of the Mutual Defense Assistance Control Act of 1951 (Battle Act).

Since 1955 Yugoslavia has provided the United States upon request with end-use certificates for individual import transactions. These import certificates constitute official undertakings that goods of United States origin will be consumed in Yugoslavia and will not be re-exported without prior United States approval. These arrangements have been reconfirmed at intervals since 1955. The only known diversion, involving borax, took place in 1957. The investigation was prompt and succeeded in having the bulk of the borax in question either retained in Yugoslavia or recalled while en route presumably to a Soviet bloc destination. In connection with the incident, the Yugoslav Government gave assurances that the system of issuing end-use guarantees would be tightened. Since that time there has been no case involving diversion or irregular transshipment of United States goods via Yugoslavia.

Because of the Berlin situation and apparent pressures building up in connection with Congressional investigations of export licensing policy, there was a temporary suspension of export licensing actions last August for the Soviet bloc, including Poland, and for Yugoslavia. On August 25 there was a White House decision that there should be a "more rigorous interpretation of the strategic criteria" in considering exports to the Soviet bloc, including Poland. There was a further specific review of the Polish and Yugoslav situation by the National Security Council on October 13. This resulted in the following agreement:

"(1) To remove the current suspension of export licenses to Yugoslavia and Poland, and

"(2) To revert to previous practices, including the careful screening of all export licenses issued."

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The discussion in the NSC made it clear that Yugoslavia, as contrasted with Poland, is not a Soviet bloc country and should not be treated as such. While the NSC Action lumps the two countries together, it would seem clear that the treatment of Yugoslavia should be that which prevailed prior to the August suspension of licensing. A decision on December 20 by the Export Control Review Board to approve a number of cases which had been held covering the export of copper and copper scrap to Yugoslavia would seem to confirm this interpretation.

At the same time, the Department of Commerce is continuing to review cases for Yugoslavia against standards which, while not clearly defined, differ from the standards applied in the review of cases for other non-Soviet bloc countries. Apparently Commerce considers itself to be under some obligation, stemming either from the NSC or from separate high level discussions, to keep a tight hand on Yugoslav licensing. It is this apparent impression on the part of Commerce which should either be removed or confirmed and made explicit.

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