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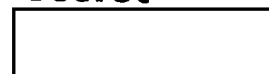
YUGOSLAVIA ARMS PROCUREMENT

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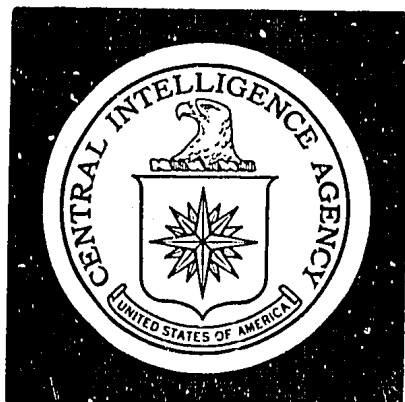
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DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

The Changing Pattern Of Yugoslavia's Arms Procurement

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1971

INTELLIGENCE MEMORANDUM

The Changing Pattern
Of Yugoslavia's Arms Procurement

Introduction

Yugoslavian arms procurement has vacillated between East and West since the end of World War II. Moscow provided some military equipment and training to Yugoslavia's armed forces until Belgrade's 1948 break with the Cominform. Yugoslavia then turned to the West for military assistance, and for the next 10 years obtained most of its military equipment from the United States. In 1957, however, Defense Minister Gosnjak indicated US military aid would not be renewed after the then current agreement expired in 1961. From 1961 until the present the Soviet Union has remained Yugoslavia's primary arms supplier.

Although the Soviet invasion of Czechoslovakia in 1968 strained Belgrade's relations with Moscow, the military supply relationship has been maintained, and a new arms accord currently is under negotiation. Yugoslavia, nevertheless, is concerned over its heavy dependence on the Soviet Union for arms and has sent delegations to Western countries in an effort to diversify its sources of supply. This memorandum examines the sources, rationale, and implications of Yugoslavia's arms procurement programs.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and coordinated with the Office of Current Intelligence and the Office of Strategic Research.

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~~SECRET~~Magnitude of Yugoslavian Arms Procurement Abroad

1. Since 1952,* Yugoslavia has received at least \$1.1 billion of military equipment from foreign sources (see Table 1). Although two-thirds of this equipment was supplied by Western countries, the USSR has been the source of most of Yugoslavia's arms purchases since 1961 and of almost all of Belgrade's modern weapons systems.

Table 1

Foreign Arms Deliveries to Yugoslavia a/
1952-70

<u>Country</u>	<u>Million US \$</u>	<u>Percent of Total Deliveries b/</u>
<i>Total</i>	1,139.1	100.0
Communist countries	<u>370.6</u>	<u>32.5</u>
USSR	365.0	32.0
Czechoslovakia	3.6	0.3
Hungary	2.0	0.2
Poland	N.A.	N.A.
Free World	<u>768.5</u>	<u>67.5</u>
France	1.2	0.1
Italy	6.0	0.5
United Kingdom	21.0	1.8
United States	733.3	64.4
West Germany	7.0	0.6

a. Excluding the value of military equipment assembled or constructed in Yugoslavia under licensing agreements.

b. Because of rounding, components may not add to the totals shown.

* Earliest year for which information is available.

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Procurement in the Free World

2. Ejected from the Cominform in 1948, Yugoslavia turned to the West to meet its military equipment requirements and found a willing supplier in the United States. The United States subsequently provided Yugoslavia with nearly \$735 million of military equipment, almost all of it as grant aid in the 1950s under the Mutual Defense Assistance Program. Equipment received under this program included 546 fighter aircraft, 117 trainers, 20 transports, 10 helicopters, 7 minesweepers, 8 patrol boats, nearly 1,000 tanks, and a wide variety of other ground forces equipment (see Table 2 for the types of major military equipment delivered from Soviet and Western sources).

Table 2

Major Military Equipment Delivered to Yugoslavia
1952-70

Equipment	Units	
	Soviet Manufacture	Western Manufacture
Land armaments		
Tanks	420	945
Armored personnel carriers	25	0
Artillery and heavy mortars	2,830	2,103
Self-propelled guns	115	56
Naval ships		
Destroyers	0	2
Large guided missile patrol boats	10	0
Patrol boats	4	8
Minesweepers	0	7
Aircraft		
Propeller bombers	0	88
Jet fighters	58	422
Propeller fighters	0	126
Transports	2	27
Helicopters	45	44
Others	0	130
Guided missile systems		
Surface-to-surface, anti-tank	Some	0
Surface-to-surface, anti-ship	Some	0
Surface-to-air	8 battalions	0

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In the hope of gaining political concessions from Moscow in the years immediately following the 1956 revolts in Eastern Europe, Tito in 1957 announced the termination of the US arms aid program, which was near completion. Yugoslavia has continued to purchase small quantities of supplies from the United States, mainly spare parts, naval ordnance, and communications and support equipment. During the past six years, these purchases have averaged about \$200,000 annually.

3. Yugoslavia also has purchased some military equipment from several West European countries, usually on a cash basis. The United Kingdom has supplied antiaircraft guns, destroyers, aircraft, and, more recently, jet engines and S-55 Whirlwind helicopters that were assembled in Yugoslavia. In 1969, Yugoslavia purchased military vehicles from West Germany and Italy and a few helicopters from France.

Resurgence of the Soviet Arms Program

4. In the early 1960s, Yugoslavia initiated a program to augment its armament inventories with more modern equipment. Belgrade accepted Soviet offers because of the closer political relations existing between the two countries and the favorable repayment terms for the arms. Since 1961, Yugoslavia has obtained almost all its arms from Communist countries. Practically all of the more than \$370 million of Communist arms have come from the Soviet Union. Moscow has provided most of the modern equipment currently in Yugoslavia's inventories, including medium tanks, surface-to-air missiles, guided missile patrol boats, and MIG-21 jet fighters -- Belgrade's only supersonic aircraft.

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5. Soviet equipment was provided under three major arms accords, as shown in the tabulation below. The value of the agreements are based on known equipment deliveries calculated at Soviet export list prices (see ER H 70-3), with a factor for spare parts and support equipment added.

<u>Years of Agreement</u>	<u>Estimated Value (Million US \$)</u>	<u>Major Items Covered</u>
1961 1962	140	T-34 tanks, artillery, Snapper anti-tank missiles, SA-3 surface-to-air missiles, MIG-21C jet fighters, MI-4 helicopters.
1964/65	225	T-55 and T-62 tanks, Sagger anti-tank missiles, SA-2 surface-to-air missiles, Osa-class guided missile boats, Shershen-class patrol boats, MiG-21D jet fighters, MI-8 helicopters.



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6. A second method of determining the value of Soviet military deliveries, one which has proven reasonably accurate when applied to Warsaw pact countries, is based on Soviet trade statistics (see ER IM 69-95). This method assumes that Soviet trade statistics on total exports include military shipments. A residual is calculated representing the difference between the reported total exports and the sum of the reported values of items exported to Yugoslavia. This residual represents an upper limit on the value of Soviet military shipments. The results obtained by the residual method bears a close correlation

with those obtained by pricing known deliveries of equipment until 1966. For the period 1966-70, however, this method gives a much higher figure than the value of equipment known to have been delivered. As a check on the residual method for the period 1966-70, Soviet data on exports to Yugoslavia were compared with Yugoslav data as imports from the USSR, which are known to exclude military deliveries. The difference obtained by this method corresponds closely with the residuals in Soviet exports. The discrepancies, about \$130 million, between the two calculations from trade statistics and the value of known deliveries cannot be resolved at this time.

7. Three other Communist countries also have supplied military equipment to Yugoslavia. In 1969, Hungary provided Yugoslavia with \$2 million of military vehicles and Czechoslovakia sold some \$3.6 million of anti-aircraft guns and transport equipment. In the mid-1960s, Czechoslovakia granted a license to Belgrade to produce the L-200 Morava, a piston-engine light utility aircraft. About 30 of these aircraft were produced at the Libis Airframe Plant with the designator of L-200D Morava Libis. [REDACTED]

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Domestic Arms Production

8. Yugoslavia has only a small capability for producing military equipment. Its arms industry can manufacture all of its needs for small arms and artillery ammunition and artillery up to medium size (see Table 3). Yugoslavia had assembled a few M-60 armored personnel carriers domestically, but this production has been discontinued and Belgrade is now totally dependent on foreign sources for its armored equipment and heavy artillery. The army also must import most of its support equipment, including tank transporters, radar, and heavy engineering equipment.

9. Domestic shipyards produce most Yugoslav naval ships, except for the Osa-class guided missile patrol boats which have been supplied by the USSR. Although Yugoslavia has the capability

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Table 3

Estimated Yugoslav Production
of Ground Forces Equipment

Type of Equipment	Units	
	1968	1969
Pistols (7.62mm, 7.65mm, and 9mm)	12,000	12,000
7.62mm semiautomatic rifle M-59/66	10,000	10,000
7.62mm submachine gun M-56	2,000	2,000
Antitank grenade launcher M-56	1,500	1,000
20mm antiaircraft gun H SS 804/630-3	100	100
82mm recoilless rifle M-64	75	75
105mm recoilless gun M-64	75	75
76mm mountain howitzer M48B-1	50	200
105mm howitzer M-56	0	25

to build warships up to destroyer size, construction has been confined to patrol boats, mine-sweepers, subchasers, gunboats, landing craft, and submarines. The navy, however, is dependent on foreign sources for much of its electronic equipment and naval weapons.

10. Yugoslavia also produces a small number of jet basic trainers (Galeb), subsonic armed reconnaissance/attack aircraft (Jastreb), and some communications/utility aircraft. The engines for these aircraft, however, are imported from the United Kingdom.

Procurement Plans for the 1970s

11. Concerned with Soviet policies toward the East European countries, with Moscow's deep involvement in the Middle East, and with the growing

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Soviet naval presence in the eastern Mediterranean, Tito apparently has made two decisions which will shape Belgrade's arms procurement policies during much of the 1970s. He has decided to modernize the country's aging military inventories and hopes to diversify Yugoslavia's sources of supply by purchasing larger quantities of arms in Western Europe. If Yugoslavia succeeds with its diversification plans, it will be the first time the country has not been almost completely dependent on either East or West for its major new weaponry.

12. Early in 1970, Yugoslavia approached several West European governments on the availability and terms of their military equipment.

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13. Arms negotiations were opened with the French in May 1970, and an agreement was concluded with a French concern to build some 100 SA-341 helicopters in Yugoslavia under license. Belgrade also expressed interest in purchasing French armored personnel carriers, antitank missiles, and radars. The French have indicated that additional sales will be concluded by mid-1971. Belgrade

negotiations with West Germany and Norway reportedly are under way.

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14. Despite efforts to shift much procurement to the West, Yugoslavia will continue to buy the larger part of its military equipment from the USSR. Economics is the major determining factor specifically Soviet willingness to accept payment in goods. The fact that very little interest was shown in Western jet fighter aircraft and armored equipment -- particularly tanks -- indicates that such equipment probably will be purchased from

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the USSR. Defense Minister General Ljubicic discussed Yugoslav defense requirements with the Soviets in May 1970 and Prime Minister Ribicic arrived the next month to negotiate a renewal of the five-year Soviet-Yugoslav arms accord. Discussions, however, were suspended until after the 1971-75 trade agreement, to be concluded probably early 1971.

Financing Arms Procurement

15. Defense spending has been the largest single element in the Yugoslav federal budget since 1965 (see Table 4). Although defense outlays have steadily increased during this period, they have remained relatively constant as a percentage of the country's social product. The

Table 4

Yugoslav Defense Budget

<u>Year</u>	<u>Federal Defense Budget (Million US \$)</u>	<u>Defense Budget as a Percent of Federal Budget</u>	<u>Defense Budget as a Percent of Social Product</u>
1965	343.4	51.2	5.4
1966	405.6	58.2	5.1
1967	430.5	53.9	5.2
1968	512.5	59.4	5.7
1969	548.8	61.1	5.2
1970 <u>a/</u>	606.0	55.4	N.A.

a. *Estimated.*

projected defense budget for 1970 increased by more than 10% and, [redacted] the largest part of this increase reflects planned arms purchases for the ground forces. Purchases of military equipment and armaments in 1968-69

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accounted for about one-fourth of the total defense budget, and the share is estimated to have increased in 1970. The budget is likely to increase even more rapidly over the next few years as Yugoslavia begins to implement its arms modernization program.

16. One of the major considerations which led Yugoslavia to obtain its arms in the USSR has been the favorable Soviet repayment terms. [redacted]

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as of mid-1970 some \$200 million still was owed to the USSR for past arms purchases. This would indicate that Belgrade has been paying \$35-\$50 million a year on its arms debt. Payment is covered largely through the clearing account from a trade balance which is almost always in Yugoslavia's favor (see Table 5).

Table 5

Yugoslavia's Trade with the USSR a/

	Million US \$					
	1964	1965	1966	1967	1968	1969
Exports to	116.1	188.3	193.8	218.8	207.0	206.4
Imports from	99.8	108.7	147.2	163.8	188.1	168.2
Balance	16.3	79.6	46.6	55.0	18.9	38.2

a. The values used are taken from Yugoslavia government statistics and do not include military imports.

17. Belgrade's inability to arrange similar favorable terms in the West (particularly repayment in goods) is likely to place serious constraint on the extent to which arms purchases can be shifted away from the Soviet Union. Yugoslavia already runs a significant payments deficit with West European countries. At the end of 1969, Yugoslavia was servicing a total convertible

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currency debt of more than \$3.3 billion, and its foreign exchange reserves in July 1970 were equivalent to only seven weeks' imports from hard currency areas. Belgrade negotiated a \$100 million long-term loan from a London bank in mid-1970, presumably to meet some of its foreign exchange obligations. Even if Yugoslavia arranges extended repayment terms in the West, the likely requirement to repay arms credits in hard currency would add to the pressure on the country's scarce foreign exchange reserves.

Arms Exports to the Less Developed Countries

18. Yugoslavia does not publish official arms export statistics, but it is estimated that Belgrade's arms exports to the less developed countries (its only market of any consequence) have ranged between \$10-\$20 million a year since 1966. Much of this consists of ammunition sold in amounts of less than \$500,000 per sale. In addition, Yugoslavia has had some success in marketing its 76mm pack howitzer, 20mm antiaircraft gun, and small naval craft. Belgrade's objectives for exporting armaments are primarily economic -- a desire to increase export earnings and to find outlets for its growing armaments industry.

19. Although Indonesia was Yugoslavia's largest arms customer -- having purchased over \$200 million of military equipment between 1960-65 -- it has not bought any equipment since 1965. India, the second largest market, has purchased more than \$21 million of equipment since 1963. In addition, Belgrade has a licensing agreement with India to manufacture the 76mm pack howitzer. Belgrade sold its first domestically produced military aircraft in June 1970, [redacted]

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[redacted] There are indications that Libya and Sudan also are interested in buying these aircraft.

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Conclusions

20. Although Yugoslavia has received about two-thirds of its post-World War II arms from the West, the USSR has been its dominant supplier of military equipment during the 1960s. The Soviet Union has sold at least \$365 million of arms to Yugoslavia, accounting for most of Belgrade's arms purchases since 1961 and for its major modern weapons systems. In Yugoslavia's current efforts to modernize its armed forces, political considerations apparently have led Belgrade to lessen somewhat its dependence on the USSR. French helicopters and Swedish torpedo boats have already been acquired, and negotiations for purchase of other types of equipment are under way with the United Kingdom and several other West European countries.

21. Yugoslavia, however, will continue to procure the major portion of its military equipment -- particularly tanks and jet aircraft -- from the USSR. The large share of Soviet equipment already in its inventories, the more favorable repayment terms offered by the USSR, and Belgrade's chronic payments deficits with the West will all combine to assure a preeminent position for purchases from the USSR.

22. Belgrade will continue to push sales of domestically produced military equipment in the Third World in an attempt to increase export earnings. Ammunition sales probably will continue to be the mainstay of Yugoslavia's export drive. Nevertheless, reports indicate that some \$1 million of naval craft have recently been sold to Zambia, and negotiations with other countries for additional sales are in progress. Some jet trainer and attack aircraft sales may also be sold under this program, but on balance Yugoslavia will continue to be an arms importer by a wide margin.