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MEMORANDUM FOR: Director of Central Intelligence

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National Intelligence Officer for Warning

FROM: Assistant National Intelligence Officer for USSR-EE

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SUBJECT: Monthly Forecast and Warning Report -- USSR-EE

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2. Yugoslavia:

A. Discussion

The domestic situation has deteriorated somewhat over the last few months but not to the extent of endangering the viability of the political system in the short term.

On the economic side, international financing through 1984 has been assured through agreement on a complex Western international aid package. Yugoslavia is fulfilling the conditions imposed by the IMF in exchange for the aid package, that is, gradually tying interest rates to inflation, lifting price controls, and adjusting wages accordingly. But these measures are depressing living standards and have produced complaints about inequitable burdensharing in Croatia and Serbia.

On the political side, the June party Plenum postponed until at least the end of the year decisions on more fundamental economic reforms and on the imposition of national party discipline on the regional party bodies. All analysts agree that the situation will probably get worse until it can start getting better but there is disagreement on the implications on the June Plenum's failure to take any basic decisions. Some analysts see it as an example of procrastination and indecisiveness that bode ill for the future. Others, however, believe that the party is deliberately allowing an open debate among the rank and file and that this is a welcome development. The reaction of major Yugoslav institutions to the new situation is mixed. In keeping with the constitution, the Federal Presidency underwent a complete change of membership at the beginning of the year. It is now composed of more ambitious leaders who are not only addressing the more critical issues more openly but also seem to be using them as a means to strengthen their individual political positions. Military leaders who had been openly critical of the political leadership at the beginning of the year have been quiescent -- either because they are now withholding judgment on the new leadership or possibly because they are divided among themselves.

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On the foreign policy side, some leaders have manifested irritation at the conditions being imposed by the IMF and by a seeming tilt of Yugoslavia toward the West. The Soviets have also periodically warned the country not to become too entangled with the West. Perhaps to silence these domestic and foreign critics of Yugoslavia's foreign policy, Chairman of the Executive Council, Mrs. Planinc, recently made a trip to Poland, where she did not utter one word of criticism about the Jaruzelski regime, and is now planning a trip to Bulgaria with which relations have been somewhat strained in the recent past. In addition, Yugoslav participants at the recent annual meeting of the mixed Soviet-Yugoslav Committee for Economic and Scientific-Technical Cooperation stressed the positive in the relationship, probably to balance reports of the Western-dominated "Friends of Yugoslavia" efforts with something positive from the Soviet side. This effort seemed to pay off as the Soviets muted their earlier criticisms of Yugoslavia and expressed "understanding" for its economic stabilization efforts. But they will surely maintain pressure to deter the Yugoslavs from adopting either domestic or foreign policies completely abhorrent to Moscow.

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3. Soviet-Cuban Relations

A. Discussion

The Soviet-Cuban relationship continues to be characterized by economic and political cooperation albeit with some disagreements now and then. On the political side there have been clear disagreements about the causes of the fiasco in Grenada and Cuban support of the Soviet Olympic boycott was tardy and seemingly reluctant. Nevertheless, Cuba joined the boycott and the two countries are working together to reunite leftist groups in the Caribbean. On the economic front, Castro pointedly stayed away from the recent CEMA Summit, probably because he realized beforehand that Cuba was not going to get CEMA's approval for the Cuban industrialization program he wants. Indeed the CEMA Summit communique noted that Cuba would continue its agricultural specialization. Economic differences, however, have not prevented the USSR from giving, and Castro from accepting, between four and five billion dollars of aid in 1983, an

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increase of about one billion over 1982. Overall, the Soviet economic plan in regards to Cuba seems to be to keep that country tied to it economically but to hope that Cuba will require less economic aid in the future. Castro wishes to lessen that economic dependence but his economy is in such poor shape that he cannot act outside the parameters set by the Soviet Union.

The USSR continues to upgrade Cuban military capabilities and recently delivered the radars associated--albeit not exclusively--with the SA-5 system. If installed in Cuba, SA-5s would threaten US reconnaissance flights and air traffic over Florida. However, we have not detected any indications of SA-5 site construction activity, a process that would take from two to six months to complete once work was started.

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