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The Communist World

## YUGOSLAV - WEST GERMAN RELATIONS AT NEW LOW

Yugoslav - West German relations, which for the past seven years have fluctuated between bad and tolerable, have reached a new low since mid-December. Yugoslavia has sent West Germany two diplomatic protest notes, has begun a vigorous anti-German propaganda campaign, and now is preparing to air its complaints before either the UN or the participants in the 1945 Potsdam Conference.

Foremost in the Yugoslav mind is the question of indemnification for World War II losses, which the Potsdam Conference agreed West Germany should pay. Bonn has refused to do so, claiming that Yugoslavia, by virtue of its 1957 diplomatic recognition of East Germany, does not view West Germany as the legal successor to the Third Reich.

East Germany would probably not be any more cooperative if approached about indemnification. Although the Potsdam Conference made it responsible for war reparations only for the USSR and Poland, it agreed last May to send Yugoslavia \$17.5 million worth of goods in connection with use of Yugoslav labor in Germany during the war. This agreement, however, was reached only after prolonged negotiations, and neither side has described it publicly as covering indemnification.

From late May to mid-July last year, Yugoslavia and West Germany conducted negotiations

on this and other economic questions, such as Bonn's opposition to talks between Yugoslavia and the Common Market. Belgrade offered to consider the indemnification issue closed and to make minor political concessions if Bonn would provide it new economic assistance in an amount approximating the indemnification claim. Bonn's counteroffer was so low, however, that the Yugoslavs broke off the negotiations. The chief Yugoslav negotiator claims to have obtained agreement in late September to reopen the talks, but Germany appears to be stalling. Its negotiators have not yet arrived in Belgrade.

The Yugoslavs are also exercised over the emotion-laden issue of Croat emigré groups in West Germany, where Belgrade claims terrorists are trained for operations in Yugoslavia. Belgrade was displeased when the trial of a band of Croats, charged with sacking the Yugoslav trade mission in Bonn and murdering a Yugoslav national in late 1962, was temporarily postponed on 9 December. The Croats' defense attorneys, moreover, have begun legal proceedings in West Germany against Yugoslav Foreign Minister Popovic, charging him with atrocities against German prisoners during World War II. The German Foreign Ministry is limited as to action it can take in these matters, but apparently is trying to have charges against Popovic quashed.

The US Embassy in Belgrade believes that the Yugoslavs

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will wait a little longer before pursuing the Potsdam or UN channels. A Yugoslav Foreign Ministry official has implied that a crisis can be averted simply by the arrival in Belgrade of West German negotiators. Neverthe-

less, neither side appears to have changed its basic positions enough to permit any substantial reduction in bilateral antagonisms.

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PEIPING BUYS WESTERN INDUSTRIAL EQUIPMENT

Following long surveys of Western markets, China has begun buying oil production and refinery equipment and synthetic fiber and fertilizer plants. Contracts for additional industrial equipment are expected, but no massive purchases appear likely in the near future.

Peiping's purchases of industrial plants in Western Europe and Japan since mid-1963 total at least \$60 million. It has bought oil refining and drilling equipment and a fertilizer plant from the Netherlands, a synthetic ammonia installation from the UK, and a sizable synthetic fiber plant from Japan. Just last month China bought from Italy two more fertilizer plants. Peiping has also contracted for oil refinery equipment from Italy and reportedly will buy associated petrochemical equipment at a later date.

These plant purchases--the first from the free world since failure of the "leap forward" in 1960--are being made at a time when Peiping's imports of industrial plants from the USSR have fallen to about \$10 million from an

average of over \$375 million in 1959 and 1960. There is little prospect of Peiping's seeking any renewal of major industrial imports from this source, but it will probably continue to import limited quantities of industrial products.

Currently a Chinese mission is visiting French petroleum installations, and a French mission is in Peiping closing a deal for chemical equipment. Another Chinese delegation will visit Japan this month to begin negotiation for a second synthetic fiber plant.

Peiping, in economic difficulties, suspicious of foreigners, and having been subjected to stringent Western trade controls, is likely to move slowly with purchases from the free world. In view of its slim foreign exchange reserves and its need for large quantities of Western grain, it presumably will continue to finance purchases from nonbloc sources through increased exports. It may also redirect some items now exported to the USSR to free world markets and seek more medium-term credits. ~~(SECRET NO FOREIGN DISSEM)~~

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