

NIE 15-61
23 May 1961

~~SECRET~~

NATIONAL INTELLIGENCE ESTIMATE
NUMBER 15-61

CIA HISTORICAL REVIEW PROGRAM
RELEASE IN FULL

OUTLOOK FOR YUGOSLAVIA

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the
UNITED STATES INTELLIGENCE BOARD

on 23 May 1961. Concurring were The Director of Intelligence and Research, Department of State; the Assistant Chief of Staff for Intelligence, Department of the Army; the Assistant Chief of Naval Operations (Intelligence), Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; the Director for Intelligence, Joint Staff; the Assistant to the Secretary of Defense, Special Operations; and the Director of the National Security Agency. The Atomic Energy Commission Representative to the USIB, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

~~SECRET~~

Nº 388

CENTRAL INTELLIGENCE AGENCY

DISSEMINATION NOTICE

1. This estimate was disseminated by the Central Intelligence Agency. This copy is for the information and use of the recipient and of persons under his jurisdiction on a need to know basis. Additional essential dissemination may be authorized by the following officials within their respective departments.

- a. Director of Intelligence and Research, for the Department of State
- b. Assistant Chief of Staff for Intelligence, Department of the Army
- c. Assistant Chief of Naval Operations (Intelligence), for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Director for Intelligence, Joint Staff, for The Joint Staff
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant Director, FBI, for the Federal Bureau of Investigation
- h. Assistant to the Secretary of Defense, Special Operations, for the Department of Defense
- i. Director of NSA for the National Security Agency
- j. Assistant Director for Central Reference, CIA, for any other Department or Agency

2. This copy may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Central Reference, CIA.

3. When an estimate is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the estimate should either be destroyed, returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

4. The title of this estimate when used separately from the text, should be classified:

~~FOR OFFICIAL USE ONLY~~

~~WARNING~~

~~This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.~~

DISTRIBUTION:

White House
National Security Council
Department of State
Department of Defense
Atomic Energy Commission
Federal Bureau of Investigation

OUTLOOK FOR YUGOSLAVIA

THE PROBLEM

To review the domestic and international position and policies of Yugoslavia, and to estimate their probable course of development during the next several years.

CONCLUSIONS

1. Since its expulsion from the Bloc in 1948, Yugoslavia has emerged from economic backwardness and has become a politically stable nation with an internal system which differs in important respects from that of other Communist states. The least evolution has occurred in the sphere of political control, which continues to be exercised by a disciplined Communist party under a leadership that retains the cohesiveness it acquired during wartime partisan days. In recent years, increased powers have been granted to local government units, and attempts have been made to draw the population increasingly into the execution of policy. However, the decentralization process has been carefully controlled, and has not altered the party's dominant position. (Paras. 8, 11-12, 14-15)

2. The party leaders continue to face certain persistent problems. They have been unable to overcome a general apathy toward communism, particularly among the younger generation, which is strongly attracted by Western material standards and cultural influences. Ethnic and re-

ligious animosities remain, although they have been successfully contained. Nevertheless, the regime has reduced popular discontent, and is even gaining a certain measure of positive support as the country's international prestige grows and, more important, as personal consumption increases—during the last few years at a rate of about 10 percent per year. (Paras. 16-19, 27)

3. By discarding a number of economic practices which characterized the Stalinist period, the Yugoslav leaders have gradually and cautiously developed a distinctive type of mixed socialism which combines state ownership and planning with many of the characteristics of a market economy. This approach, buttressed by substantial and continuous Western assistance, has done much to bring the economy out of its former backward status. Economic policy in recent years has stressed a more balanced investment program, the revitalization of agriculture, and relaxed restrictions on imports of consumer goods. As a result, the 1957-1961 plan was fulfilled a year

ahead of schedule, and the annual growth in the GNP was over 12 percent per year, one of the highest rates in the world. (Paras. 22-25, 27-29)

4. While cautious experimentation will continue, the distinctive internal system which the Yugoslavs have developed is unlikely to undergo substantial change in the next several years. Tito's death may pose a serious problem for the party, but his successors, fearful of providing an opening to Soviet influence on one side or the presumably more liberal alternative represented by Djilas on the other, will probably succeed in limiting their differences. Thus, even in this contingency, we do not foresee any fundamental alteration in the basic features of the present system—a socialized economy and a single-party monopoly of power. (Paras. 21, 26, 52-54)

5. Yugoslavia has exploited with considerable skill its unique position as a Communist state outside the Sino-Soviet Bloc. It has maintained its independence against both threats and blandishments from the Bloc, at the same time retaining a certain amount of influence in Communist affairs. It has obtained large amounts of economic and military assistance from Western countries while continuing to criticize and oppose its benefactors on numerous issues. And it has used these proven successes of "non-alignment" to achieve a position of leadership among the uncommitted countries and to gain international prestige far out of proportion to its size and strategic importance. (Paras. 8, 35-36, 41, 45)

6. We do not expect any substantial change in these policies. The question of whether Belgrade will voluntarily re-join the Bloc has, we believe, been settled in the negative. Instead, the Yugoslavs will seek discreetly to extend their influence in the Communist parties, hoping that the Bloc will eventually become a looser grouping of genuinely autonomous states with which they can develop more intimate relations. Meanwhile, policy toward Yugoslavia has again become a hotly disputed issue within the Bloc and, so long as Sino-Soviet differences remain unresolved, Yugoslavia's importance as a disruptive element in the Communist movement will continue or even increase. (Paras. 38-39, 41, 52, 56-57)

7. Yugoslavia's frequent opposition to Western policies stems in part from its Communist ideology, but even more from its desire to associate itself with the position of the underdeveloped countries. The emergence of these countries offers the promise of secure markets for Yugoslavia's growing industry and, even more important, an opportunity for Belgrade to become one of the leaders of a group of states whose collective influence on world affairs can in its view be very great. Yugoslavia's doctrines and achievements will commend it to many leaders of these states who seek rapid economic growth, wish to avoid entanglement in great-power blocs, and are already inclined toward authoritarianism and central planning. Its advocacy of its own methods in these areas will thus tend to work against the political influence of both the Eastern and Western camps. (Paras. 45-48, 55)

DISCUSSION

I. INTRODUCTION

8. Since its expulsion from the Soviet Bloc in 1948, Yugoslavia has changed gradually from a backward country, plagued by internal uncertainties and external threats, into a politically stable nation which has embarked upon the process of sustained economic growth. In the process, the Yugoslav Communists have shaken off large portions of their Stalinist heritage and have developed a distinctive socialist system which sets them apart from Bloc Communists. On the world scene, Belgrade has skillfully exploited the East-West conflict and the emergence of new, uncommitted powers to bolster its independence and to acquire international influence far out of proportion to its size and strategic importance.

9. The Yugoslav Communists have been able to survive as an independent state outside the Bloc in part because of Western aid, but mainly because they had developed sources of internal strength which made their situation unique among the Communist parties of Eastern Europe. First of all, the party had developed during World War II its own political and military base and attained control over the country virtually without Soviet help. Secondly, the party leaders have preserved an unusual degree of solidarity, based on the camaraderie of the wartime partisan struggle. Moreover, these leaders were able to secure the support of varied elements of the population by promoting the reunification of Yugoslavia, which had been broken up into its constituent parts by the Axis. Yugoslav nationalism, greatly stimulated in the population by the regime's defiance of Moscow, is still an effective rallying point.

II. DEVELOPMENT OF THE YUGOSLAV SYSTEM

10. As Marxists, the Yugoslav Communists have found it necessary to elaborate their own ideology in order to justify their actions to their own party members and to set them-

selves apart from their erstwhile comrades in the Bloc. The Yugoslav version of Marxism-Leninism is of course represented by the Yugoslavs as in no sense a departure from the essentials of communism. Nevertheless, their doctrine is at almost every point a rationalization of the pragmatic policies which the party has adopted to meet urgent problems. Yet the new doctrines have come to have a broader significance of their own. The concept of their "own road to socialism" has provided the Yugoslav leaders with an extra measure of purposefulness, confidence, and even conceit. Further, this ideology has been and continues to be a potent factor of division between Yugoslavia and the Sino-Soviet Bloc, and even a disturbing element within the Bloc itself. Lastly, in recent years Belgrade has been better able to propagate its theories among young governments which are also seeking to launch the process of modernization, and Yugoslavia has gained some credit in these quarters as an ideological innovator.

The Communist Party

11. Yugoslavia remains a one-party state, and the party remains a disciplined organ; it is in this fundamental respect that the Yugoslav system has undergone the least evolution in the last 13 years. In an early phase of experimentation, the party flirted with the idea of reducing its role in favor of more representative and broadly-based bodies. This concept of the "withering away of the party" took an extreme form in Djilas' proposals that party discipline be loosened and the party itself be transformed from an elite into a mass organization.¹ Djilas' ideas, and the confusion which they caused within the party, prompted Tito to reassert firmly the party's dominating position. In recent years, its manner of functioning has been changed somewhat, though without any radical reduction in its role, as increased powers have been

¹ Djilas subsequently carried his heresy much further by advocating a multiparty system.

granted to local governmental units and economic enterprises. This has been a controlled decentralization, which leaves party influence less direct but still determining.

12. In its internal life, the Yugoslav Party differs in important respects from the other Communist parties of Eastern Europe. It is still led by the able core of partisan leaders who have commanded it since World War II. These men are all Tito's selections, and his pre-eminence has been unquestioned for a quarter of a century. The leadership has avoided the purges which have racked the other East European parties, and Tito has not sought to cow his colleagues in the manner of Rakosi or Ulbricht. Independence and resistance to external interference have brought the party nearer the people and made it appear as the defender of Yugoslav national interests, rather than an alien regime imposed upon a hostile population. These factors, plus the successes achieved in both domestic and foreign policies, have muted the internal rivalries characteristic of Communist parties and produced a confident leadership whose members work reasonably well together.

13. Nonetheless, some potentially divisive factors do exist within the party. One is the discontent of the younger generation which has joined the ranks since 1945. This group does not share the sense of dedication or feeling of close camaraderie of the cadres who served in the Partisan war; it is, furthermore, resentful at being blocked from key assignments by the prewar group, who, now in their forties, occupy virtually all the key positions.² A second potential source of intraparty division is the tendency of party members to divide along regional lines. Those from the economically more advanced regions (i.e., the Catholic provinces of Croatia and Slovenia, which were formerly part of the Austro-Hungarian Empire) tend to lean toward West-

² Of 135 seats in the party's Central Committee, all but four are currently held by persons who joined the party before World War II. A similar monopoly of key positions in the party below the Central Committee level is enjoyed by those who joined the party before the end of the war; this group numbers approximately 141,000. Party membership now totals almost one million.

ern Socialist ideas and to line up against those from the more retarded areas, whose views on the whole are more rigid and doctrinaire. This second divergence is particularly reflected in opposition by the more advanced regions to continued subsidy at their expense of the economic development of the backward areas.

14. A major difference between Yugoslavia's communism and that of the Bloc parties is in the role of the Socialist Alliance of Working People of Yugoslavia³ (SAWPY), which in many respects is a front for the party, but which the leadership is nevertheless trying to infuse with something of a genuinely representative nature. The intention is not to abdicate to SAWPY the policymaking role, but to use it to draw the population into the execution of policy and at the same time impart to the people a sense of participation. This organization is being granted increasing powers in relation to the local political and economic units, functions which previously were a monopoly of the party.

Governmental Decentralization

15. One of the basic Yugoslav criticisms of the Soviet system was that Stalin, ignoring Marx's dictum that the state should gradually "wither away," had created instead an oppressive bureaucratic state, removed every democratic feature from the party, and relied upon arbitrary personal interventions and terror to make the system work. The Yugoslav leaders have sought to overcome these defects in elaborating their "separate road." One means which they devised has been the decentralization of government, in which the powers formerly exercised solely by the federal government have been progressively delegated to the primary territorial unit, the *opstina*. This body, through a gradual buildup of its political and economic powers at the expense of those of the higher echelons of government, is eventually to become the basic administrative unit of the Yugoslav version of communism. Progress is uneven, but a number of local functions and responsibilities have already been granted to

³ At the end of 1959 SAWPY embraced 58 percent of the voting population.

the *opstina*. These developments have in no way endangered ultimate control by the Yugoslav Communist Party, but they have reduced the need to assert this control directly.

Relations with the People

16. The regime has succeeded in containing traditional national and religious animosities within the country. It has accomplished this by granting the six Republics "equal" status within the Federal Structure, by permitting a certain amount of local autonomy, and by providing a roughly proportional representation of the various national groups in the leading bodies of party and government.⁴ Though contained, the old antagonisms nevertheless continue to exist beneath the surface. The regime's policy of building up the economically backward Republics continues to stimulate resentments in the more developed areas. Separatist sentiments have not disappeared from Croatia and Macedonia, and fear of Serb domination remains in the other ethnic groups. Much of the success achieved in containing such antagonisms is owing to Tito himself, because of his non-Serb origin and his insistence upon representing himself as a Yugoslav nationalist.⁵

17. The regime continues to maintain a basically hostile attitude toward religion. It seeks to confine the churches as much as possible to strictly religious matters and, over the long run, to eliminate the influence of religion entirely. In the meantime, the party is careful to avoid antagonizing the faithful unnecessarily, especially where religious sentiments are coupled with local nationalism. Thus, cordial relations with the head of the

⁴ The six republics are Serbia, Croatia, Slovenia, Bosnia-Herzegovina, Montenegro, and Macedonia. In addition, there is an autonomous province (the Vojvodina) and an autonomous region (Kosovo-Methohija). Croatia, Slovenia, and the Vojvodina, which were part of the Austro-Hungarian Empire, are more advanced and more highly developed. Montenegro, Macedonia, the Kosmet, Bosnia-Herzegovina and some parts of Serbia are the "backward areas."

⁵ Tito had a Croat father and a Slovenian mother. In the interwar period he became a leader of the party elements opposing Serb domination.

Muslim community are used to influence the sentiments of the Bosniak and Albanian minorities. Moreover, in July 1959, largely as a gesture to local feelings, the Orthodox church in Macedonia was freed from the control of the Serbian Orthodox hierarchy and given virtually independent status. The regime's major problem remains the Roman Catholic Church, particularly in Croatia. In early 1960, however, Cardinal Stepinac's death was followed by conciliatory gestures both by the regime and by a more receptive Pope. Although there have been preliminary moves toward negotiation, no concrete results have appeared.

18. The Yugoslav populace remains generally unresponsive to communism as a doctrine. The peasants, who still comprise about half the population, retain some of their traditional suspicions of communism and of those in authority, despite increased confidence in recent years that the government will not interfere with their land titles. Nor has the regime, any more than the other Communist states in Eastern Europe, made much headway in enlisting broad support in the younger generation, which is strongly attracted by Western material standards and cultural influences and is indifferent to official programs and Communist ideology. Although the party itself has had some success in recent years in drawing more young people into membership, its lack of appeal to the great majority of youth remains a serious weakness.

19. Nevertheless, the Yugoslav regime has made substantial progress toward reducing popular discontent and has even succeeded in gaining a certain measure of support. The secret police are considerably less in evidence than formerly, and there has been a decline in popular fear of them. The increased degree of civil freedom has been accompanied by a considerable amount of free play allowed in drama and the creative arts. The Yugoslav leaders have succeeded in bringing many elements of the populace into more or less voluntary participation in their programs, through SAWPY or organs like the workers' councils. The Yugoslav people take considerable pride in the foreign policy achievements of the regime,

particularly its defiance of the USSR, and in this respect they regard Tito as a kind of national hero. Perhaps the chief factor, however, in the gradual reduction of popular discontent with the regime has been its economic achievements in recent years, which have brought a substantial improvement in living conditions.

20. Continued improvements in the standard of living will tend to stimulate pressures for increased liberalization in the political and cultural fields. The leadership, however, should have little difficulty in keeping such pressures under control. Discontent may increase from time to time—as it has, for example, because of the rise in consumer prices due to the exchange reform in early 1961—but such difficulties seem likely to be manageable. So long as present policies continue and no serious economic crisis occurs, no major difficulties are foreseen in the regime's relations with the populace.

21. After considerable trial and error in recent years, and the chastening effect produced by the events in Eastern Europe in 1956, the Yugoslav leaders seem to be fully aware of the dangers of too great a relaxation of central political control. They are likely, as a consequence, to continue present efforts to build up the strength of the party, while at the same time moving ahead gradually with the "self-management" principle in local political and economic organs. A new constitution, which is scheduled for adoption in 1962, will present an opportunity to codify and further extend these institutional developments.

III. DEVELOPMENTS IN THE ECONOMY

The Economic System

22. It is in the economic sphere that the Yugoslavs have departed most notably from the practices followed by the other Communist states. In the past decade, the regime has successively freed itself from a whole series of obsessions inherited from the Stalinist period: that planning and administration must be completely centralized; that the peasants must be forced into collective farm-

ing; that heavy industry must be developed at any cost, preferably via very large investment projects; that the economy must be insulated from the influences of world markets. In giving up these dogmas, Belgrade has experimented cautiously, gradually coming to adopt a distinctive type of mixed socialism which combines state ownership and planning with many of the characteristics of a market economy. This approach, made possible in part by continuous Western assistance, has been singularly successful.

23. Partly to improve efficiency and partly to make the economy more responsive to popular desires, the Yugoslavs have undertaken an extensive decentralization of planning and administration. The government still retains direct control over the general features of planning, but detail has been delegated largely to the local level. In investment, central control is retained for key projects, but nonpriority investment funds are now locally administered, though within centrally prescribed limits. At present, only about one-third of gross capital investment is provided from federal funds, while the other two-thirds come from republic, district, *opstina*, and local enterprise funds. One of the chief divergences from Soviet practice has been the introduction of a market mechanism in place of the former rigid schedule of administered prices. Central control is retained for prices of strategic or scarce commodities, and for emergencies, but otherwise products have generally been allowed to seek their own price levels in the market. In the determination of wages, extensive decentralization has also occurred, but the regime still keeps a watchful eye, through the trade union organization, on the incentive wage systems administered by the enterprises.

24. Developments at the level of the individual enterprises—e.g., factories, mines, construction, and trading organizations—have been of key importance to the dynamism characteristic of the Yugoslav economy in recent years. First of all, the regime, in marked contrast to the Bloc states, has allowed a good deal of latitude to enterprise management.

Though limits have been established by taxation and other measures, and the central authorities maintain a supervisory eye through the local government bodies, the enterprise is otherwise fairly free to decide what and how much to produce; to dismiss workers even if this creates temporary unemployment; to purchase supplies freely on the market; to sell its produce either in Yugoslavia or abroad, and to distribute its net profit in consultation with the workers' council. The enterprise must operate on a profit and loss basis; if it remains too long in the red the government will intervene.

25. While the regime's propaganda has greatly exaggerated the independent role of Workers' Councils, their development over the last 10 years reflects a major difference between Yugoslavia's economic system and that of the Bloc countries. They have been given certain limited powers in connection with decisions on planning, investment, and wages, though the regime has maintained strong, if indirect, control. The plant director (chosen by local government authorities) makes most of an enterprise's operating decisions, and the country's centralized trade union structure has been strengthened to improve its watch-dog role. Nevertheless, the Workers' Councils, together with the SAWPY organization, have given the worker an increasing interest and sense of participation in the operation of his enterprise.

26. The Yugoslav leaders have proceeded cautiously with economic experimentation. Nonetheless, the more basic reforms such as use of the market mechanism, latitude for the economic enterprises, and decentralization of controls over the economy to the local level, have now proved their effectiveness over a period of years and, unless a major crisis occurs, are unlikely to be reversed. The process of trial and error will probably continue, and though recent actions indicate that the central authorities intend to keep a firm, if only indirect, hand on the economy, this may become increasingly difficult. The tendency toward further experimentation will be strengthened because the regime's emphasis

on increasing foreign trade will require enterprises to adjust more and more to world market conditions.

Trends in Production

27. Since 1956 the Yugoslav economy has made impressive achievements, considering the problems that beset the economy at that time. During the period of the 1957-1961 five-year plan, a very intensive rate of investment (about 30 percent of gross national product) was maintained, and GNP grew at an average annual rate of over 12 percent, one of the highest rates of growth in the world, and higher than any of the Soviet Bloc states. The plan was fulfilled a year ahead of schedule. One of its main achievements was a high and steady growth in per capita personal consumption, averaging about 10 percent per year (the planned rate of growth was only five percent), which reflected the revitalization of agriculture, higher priorities for light industry, and a relaxation of trade barriers against foreign consumer goods.

Agriculture

28. Yugoslavia has achieved considerable success in agriculture since it abandoned collectivization in 1953 and subsequently dispensed with compulsory deliveries. Although the regime still pays lip service to the ultimate goal of socialization, the peasant's confidence in the security of his land tenure has been restored. At the same time, through financial inducements and other means, the regime urges the peasants to participate in cooperative forms of marketing. Under the 1957-1961 plan, the state doubled the share of total investment devoted to agriculture and successfully introduced new varieties of Italian wheat and US hybrid corn. As a result of these measures, gross agricultural output increased during the plan years by about 40 percent over the 1952-1955 period, and Yugoslavia in 1959 freed itself from dependence upon wheat imports for the first time since World War II. The 1960 harvest was less successful, and Belgrade had to turn again to the US for wheat. But the measures of recent years have reduced Yugoslavia's vulnerability to bad weather, and

it has a good chance in the next few years to become self-sufficient in wheat and to continue to expand its exports of corn and meat.

Industry

29. In industry, the most important policy shift of the 1957-1961 five-year plan was a marked changeover from the stress on long-term investment in heavy industry to an investment policy directed to a more balanced development of the economy. A number of heavy industrial projects continued to be developed, but the main effort was placed on achieving an immediate increase in output by bringing idle industrial capacity into production and by stressing quick-yield projects in light industry. The new approach was effective, and the index of industrial production rose from 100 in 1956 to 169 in 1960.

General Economic Prospects

30. The new five-year plan (1961-1965) indicates that a high rate of economic growth—on the order of 10 percent per annum—will continue to be pressed during the next few years. Investment will be held at the same high rate, and to help sustain it the regime will continue to seek substantial Western credits. Increases in industrial production will not be so spectacular as those achieved after 1957, since, for the most part, reserve industrial capacity is fully utilized. The regime must now invest more in basic facilities and concentrate on improving the quality of the labor force and on obtaining foreign technical assistance. If present trends continue, Yugoslav agriculture will probably be self-sufficient by 1965 in production of major foods, and Belgrade will increase its exports of meat, meat products, and certain grains.

Foreign Trade

31. As a result of the growth of Yugoslav industry, the pattern of foreign trade is changing. Once a traditionally backward economy which relied entirely upon the export of raw materials and the import of industrial products, now the country has begun to export semifinished and finished goods from its own

growing industry. These exports find markets in the Bloc and, increasingly, in the underdeveloped countries, where raw materials are obtained in return. Yugoslavia continues to import industrial products from Western Europe, and about half its total trade is with the industrialized West. At the present time, fearing exclusion from the multinational markets being formed in Western Europe, Yugoslavia is undertaking a foreign exchange reform which will permit its accession to GATT and otherwise integrate it more fully into the world market. Western aid, which has played a major role in Yugoslavia's development since it was expelled from the Bloc, is providing \$275 million to underwrite this reform and is financing a number of important industrial projects as well.*

32. The most serious economic problem continues to be the balance of payments situation, which will be especially precarious during the next few years because of interest and principal payments on foreign debts which will fall due. The regime seeks to reduce the deficit by expanding exports, and by reforming, with Western financial help, its foreign exchange system. A setback to the export program could easily result in inability to meet its foreign debt commitments. Such an eventuality would probably force the regime to decide between lowering the rate of investment or lowering planned goals to increase consumption, either one of which would constitute an important setback to economic progress.

33. Remembering Stalin's economic reprisals after 1948, Belgrade makes it a matter of policy to keep the Bloc's share of its total trade at about a third. Bilateral long-term trade agreements have recently been concluded with most Bloc states, but not with Communist China or Albania, Yugoslavia's chief political foes. Though a recent agree-

* Between 1949 and 1959, nearly \$2 billion of foreign economic aid was made available to Belgrade, more than half of it by the US. Yugoslavia also had access to credits from the Bloc totaling some \$110 million in value. In addition, the US granted Yugoslavia approximately \$1 billion worth of military equipment.

ment with the USSR provides for a substantial increase in trade over the next five years, it is unlikely that substantial Bloc credits for industrial development of the kind canceled in 1958 will be given in the near future.

34. Yugoslavia attaches great importance to trade with the underdeveloped countries. Belgrade hopes that in five to 10 years these countries will account for about one-fourth of its total trade, as against 15 percent at present. Belgrade has engaged in a "foreign-aid" program of sorts, in which credits are granted on favorable terms for the purchase of Yugoslav industrial products (principally heavy equipment) and technical assistance is also supplied. This program has involved the Yugoslavs in such varied activities as the construction and equipping of ports, the design and equipping of industrial plants, and the design and construction of river control projects. In the Sudan and in Ethiopia, as advisers on economic development, they have attained positions of some influence. Political objectives are involved in this program, but at the same time it is aimed at building up markets for the output of Yugoslavia's expanding but relatively unsophisticated machinery industry, and also at providing soft-currency sources of raw materials. A total of about \$170 million in credits has been extended to date, and an additional \$200 million is projected under the new five-year plan.⁷

IV. DEVELOPMENTS IN FOREIGN POLICY

35. Though the Yugoslav leaders remain convinced Marxists determined to retain Yugoslavia's identity as a Communist state, they are equally resolute in their intention to maintain the independence and freedom of maneuver acquired as a result of separation from the Bloc in 1948. Thus Belgrade inveighs against the concept of "blocs" of any kind, whether Communist or non-Communist, and seeks to

⁷The countries mainly involved in this program are India, the UAR, Indonesia, Burma, Ceylon, Ethiopia, the Sudan, Lebanon, Argentina, and Brazil. Yugoslavia is also making a play to establish itself in the new African nations, and more broadly in Latin America. In addition, it is extending limited military training and assistance to Indonesia and the Sudan.

develop bilateral ties with all countries, regardless of political orientation. The Yugoslavs, in accordance with this policy, accept Western economic assistance but keep their distance from association with Western foreign policy, particularly those aspects they regard as "colonialist" or anti-Communist. Similarly, they attempt to get economic help also from the Communist countries, but refuse to be drawn into a formal political relationship with the Communist Bloc. However, on most international issues they associate themselves with Soviet rather than Western positions.

36. This policy of nonalignment, which has successfully maintained Yugoslavia's political and economic independence and enlarged its international influence, increases Yugoslavia's appeal to the other "uncommitted" countries. Belgrade exploits this appeal to the fullest in order to increase its prestige in the world, to provide markets for its developing industry, and to guard against Bloc attempts to isolate Yugoslavia. The Yugoslavs hope to achieve a leadership role in the Afro-Asian group with a view to increasing the collective influence of the uncommitted states on international developments. They will continue their efforts to develop economic relationships with these areas, including the extension of export credits and economic and technical exchanges, and to expand the influence of the Yugoslav political and economic system.

Relations with the Communist States

37. Since the publication of its party program in early 1958, the Yugoslav Party has been condemned as heretical by the Bloc states. The doctrinal gap between the Yugoslav Party and the other Communist parties, which made virtually impossible the maintenance of party ties, is now so great that it is unlikely to be bridged in the absence of fundamental concessions by either side. Nevertheless, in contrast to developments after the break in 1948, neither Moscow nor Belgrade has allowed their latest dispute to disturb relations on the state level. Systematic attacks are made by the Bloc against the doctrinal pronouncements issued from time to time by Belgrade, but at

the same time, trade agreements have been signed, and cultural, scientific, and other exchanges continue.

38. The question of the proper attitude toward Yugoslavia has, however, become a hotly contended issue in recent years within the Sino-Soviet Bloc. The Soviets, after the failure of the 1955-1958 attempt to entice Yugoslavia back into the Bloc, have avoided returning to Stalin's counterproductive policy of open assault against Belgrade. Such a policy, they apparently felt, would only push Belgrade into closer alignment with the West. Instead, Khrushchev has tried to retain a degree of influence over Yugoslav foreign policy, and has hoped to move into a position from which, at some point, Yugoslavia could again be associated with the Bloc. More recently, Tito's growing influence among the uncommitted nations, which are also a prime target of Soviet policy, probably further limits the extent to which Moscow feels it can afford to apply pressure on Yugoslavia.

39. The Chinese Communists have no such inhibitions, and are not concerned about driving Belgrade still closer to the West. Rather, they regard Soviet moderation toward Tito as an integral part of a general tendency in Soviet foreign policy to compromise the purity of Marxism-Leninism and the cause of world revolution for the sake of detente tactics toward the non-Communist powers. They openly demand that the Yugoslavs be branded as having deserted to the enemy and become "agents of imperialism." This approach strikes a sympathetic chord among more militant elements in a number of Communist parties.

40. The leaders of Albania, whose party was once virtually a satellite of the Yugoslav Party, felt themselves gravely threatened by Khrushchev's efforts toward rapprochement with Tito, which began in 1955. Fearing a revival of this policy, they have found common cause with the Chinese. During the Sino-Soviet dispute in 1960 they openly sided with Peiping against Moscow and relations with the latter have steadily deteriorated. Tirana's relations with Belgrade, normally bad, have re-

cently worsened to the point where severance of diplomatic relations could occur at any time. As a result, the Albanian leaders show anxiety about the possibility that the Soviets and the Yugoslavs will conspire against Albania (perhaps with help from the Greeks). Soviet moves to improve relations with Belgrade—such as a prospective visit of the Yugoslav Foreign Minister to Moscow—are thus viewed by Tirana as part of a deliberate plot to unseat the Albanian regime.

41. For their part, the Yugoslav leaders continue to hope that the Bloc, under the "progressive" leadership of Khrushchev and the healthy influence of their own example, will eventually rid itself of the last of Stalin's heritage and become a looser grouping of genuinely autonomous Communist states with which they can once again develop closer and more intimate relations. In the meantime, while responding vigorously to Bloc criticism, especially to that from Tirana, they seek discreetly to extend their influence among the parties of Eastern Europe. Despite the heavy fire to which they have been subjected since the Moscow Conference of November 1960, the Yugoslavs are aware that the USSR itself has not been in the forefront of these attacks, and they continue to hope that a time will arrive when they can play a larger role in international Communist affairs without jeopardizing their independence.

Relations with the West

42. Relations with the West have improved steadily in recent years. The principal Yugoslav effort is focused on the economic sphere, where it is hoped that the West will provide most of the outside help needed for economic development. In addition to accepting Western aid and technical assistance, Yugoslavia continues to expand trade with Western countries; West Germany and Italy have become Yugoslavia's most important trading partners. Ties with European economic organizations, especially those under UN auspices, are encouraged, and cultural, educational, and scientific exchanges flourish with Western Europe and the US.

43. Regular contacts now occur with the West European Socialist parties, especially with the British Labour Party, whose influence was apparently a factor in the recent release of Djilas from prison. The Yugoslav attitude toward these groups and toward the non-Communist labor movement is considerably more cordial than that of the Bloc states. Whereas Moscow considers that "socialism" is being built only where the Communist parties have seized power, the Yugoslav view is that there is an inevitable process of institutional change toward "socialism" generally in the non-Communist world.

44. The Yugoslavs, however, have refrained from formal relations of alliance with the Western Powers, and the Balkan Pact with Greece and Turkey, negotiated in 1953-1954, when a threat from the Bloc still seemed serious, has become virtually moribund. Belgrade nevertheless does not altogether dispense with the connection because it provides certain advantages in relations with these two countries, and because the pact stands as a form of insurance against a future revival of strong Bloc measures against Yugoslavia. It is also a form of indirect contact with the Western defense system which might one day be useful to Yugoslavia, even though its political line now condemns NATO.

45. Despite their generally good relations with the Western Powers, the Yugoslavs stand in open opposition to them on a great many specific issues of foreign policy. They do this, moreover, with apparent confidence that relations with the Western governments will not be seriously harmed thereby. This opposition stems in part from their Communist ideological outlook. The latter obliges them to judge the basic aims of "capitalist" and "imperialist" states in a doctrinaire manner, and also makes them prone to believe that the other Communist states, despite their present ideological "mistakes," are pursuing historically sound objectives. In addition, opposition to the West springs from a desire to counteract the influence of the West within their own country, especially among the young people. Finally, a major considera-

tion in Yugoslav foreign policy is the desire to associate Yugoslavia with the interests of the underdeveloped and uncommitted countries. We believe that these factors will continue to shape Yugoslav foreign policy, and that in particular the attempt to align Yugoslavia with the underdeveloped countries will become increasingly important.

Relations with Uncommitted Countries

46. Tito has built up close personal ties in recent years with the most important neutralist leaders such as Nehru, Nasser, and Sukarno. More recently, he has been attempting to cultivate the leaders of the new African nations, and has hopes of doing the same with the new forces emerging in Latin America. These efforts to develop ties with many countries of varied political hue in the Middle East, Africa, Asia, and Latin America have a sound economic rationale, which is to acquire new markets and sources of raw material supply. Belgrade, however, also has an important political motive in engaging in these activities. They reflect Tito's aspirations to play a prominent role on the world stage as a leader of the "non-Bloc" states, and to achieve a degree of cooperation among the latter which would maximize their collective influence on important world developments.

47. In pursuing the development of political ties with the underdeveloped countries, the Yugoslavs are, of course, advocates of their own political and economic methods. They encourage socialization of the means of production and central control of economic development, and discourage emulation of Western forms of government, such as parliamentary methods and the multiparty system. At the same time, the Yugoslavs advise these countries to resist external encroachment and to avoid committing themselves to either the Soviet or Western models of internal development. The tendency of Yugoslav policy in these areas is not only to be critical of the West—it also works against Soviet political influence and diminishes the appeal of the Soviet pattern of economic development.

48. Tito seems to have little difficulty in establishing good relations with the leaders of these countries. The latter, for the most part, are socialistically inclined, and do not consider that their countries are ready for Western governmental forms. The appeal of Yugoslavia to these countries arises from the fact that, as a small country which is vigorously modernizing itself, it provides a model of economic development in some respects adaptable to their own needs, that it has followed a policy of nonalignment while obtaining economic aid from both East and West, and that economic and technical aid from Yugoslavia allows them to minimize entanglement with the major blocs.

49. The UN is looked upon by Belgrade as a most useful arena for the "neutralist" nations to concert their efforts to arrest cold-war tensions between the opposing "blocs." The Yugoslavs therefore actively support the organization, and consider that it should be used, at least by the big powers, as the major channel of economic and other aid to underdeveloped countries. They do not subscribe to the Soviet plan for reorganizing the UN Secretariat, though they have been sharply critical of actions of the Secretary-General in the Congo. Yugoslavia's increasingly close ties with the uncommitted countries have been reflected in the UN, where it has co-sponsored a number of "nonbloc" resolutions with them and has unfailingly supported their positions, frequently in opposition to the West and sometimes in opposition to Moscow.

Military Implications of Yugoslav Foreign Policy

50. Changes over the last several years in the Yugoslavs' view of the world situation and of the military dangers posed to them have brought about important changes in their military policy. In the years after 1948, when they believed that the principal threat to them was a possible military aggression by Bloc troops from Satellite territory, they welcomed extensive US military aid and accepted US advice concerning the organization and deployment of their forces. In that period they agreed to station their best-equipped divisions in the Ljubljana Gap area in the north-

west where these troops did a service to NATO by helping to guard the approaches to Northern Italy.

51. The death of Stalin, the Soviet withdrawal from Austria and troop reductions elsewhere in the Satellites, and above all their appreciation of the changes wrought in Soviet policy by Khrushchev, evidently persuaded the Yugoslavs that the danger of open military attack from the East had substantially declined. Thus they were glad to be able to terminate US military aid in 1957, especially since the military connection with the US was an embarrassment to their claim of nonalignment and to their desire to cultivate the neutralist states. They have since reorganized and re-deployed their forces in a manner which owes something to their experience of partisan warfare in World War II. The reorganization is also designed to put their forces in a better position, should they not succeed in staying out of a major war between the great powers, to survive nuclear attack and to counter enemy forces organized for nuclear warfare. They have formed 12 self-sufficient military area commands and are converting divisions into smaller units of brigade or reinforced regiment size. These are being trained to live off the land as self-sufficient, dispersed units while a special effort is made to develop close and cooperative relations with the population. These activities point to an intention to use the Yugoslav forces, still at 320,000 the largest armed force in the Balkans, mainly in well-organized partisan warfare on a large scale, should their conventional defenses not suffice.

V. THE OUTLOOK

52. In view of the relative success of Yugoslavia's internal and external policies in recent years and the absence of serious internal opposition, there is little prospect of early change in the main outlines of those policies. The question of whether Belgrade will voluntarily rejoin the Bloc has, we believe, been settled in the negative. Similarly, while cautious experimentation will continue in the economic and political system, there is little likelihood that liberalization will proceed so far as to alter in a fundamental way the Com-

munist characteristics of the regime—a single-party monopoly of political power and a socialized economy.

53. The death of Tito may pose a serious succession problem, but we think it is unlikely to bring about a major crisis of the regime or any fundamental alteration of its policies. At the outset, power would probably pass to his two chief lieutenants, Rankovic and Kardelj, who presently act as leaders of party and state respectively in Tito's absence. A struggle at the top might ensue if personal ambitions were reinforced by national antagonisms and debates within the party over major policy issues. But neither intraparty rivalries nor popular discontent appear serious enough to lead to extreme solutions. Instead, fears of providing an opening to Soviet influence on one side, or the presumably more liberal alternative represented by Djilas on the other, would probably have the effect of limiting differences among Tito's successors lest they risk the loss of national independence or party control.

54. The armed forces are unlikely to play an important political role in a succession struggle or in resolving other internal issues. The military leaders are themselves members of the closely-knit partisan group which leads the party, and are unlikely to take sides as a group in an intraparty struggle.

55. Yugoslavia during the next several years will probably continue to play an active role among the underdeveloped countries. Tito, on whose great personal prestige this policy has largely rested, will attempt to gain for Yugoslavia a position of leadership among the principal neutralists, and to enlarge the influence of this grouping in world affairs. Yugoslavia's distinctive Marxist ideology is attractive to many leaders of emerging nations who have been strongly influenced by Marxism and are seeking a formula to guide them through their numerous problems of

development. These leaders are inclined to be impressed by the economic achievements of Yugoslavia. Most important, Yugoslavia stands as an example of how a small country can play off the two great power blocs against each other, obtaining assistance while freely criticizing and remaining fully independent.

56. Over the long run, Yugoslavia's unique ideology may well have an increasingly significant impact upon the Sino-Soviet Bloc and the Communist movement generally. Belgrade's successes, in foreign as well as domestic affairs, will probably continue to stimulate pressures within the European Satellite parties to adopt similar policies. Its example is effective primarily among party members who want to give more emphasis to nationalist aspirations and often see in Yugoslavia's programs an alternative to the Soviet-inspired and more doctrinaire policies which they are criticizing in their own countries.

57. Even after the upheavals of 1956 in Eastern Europe, Moscow was able without great difficulty to maintain its power and authority in the Communist movement. The emergence of Communist China's serious challenge to Moscow's doctrinal authority, however, has added a new element to the scene which will probably make it increasingly difficult for Moscow to impose its own interpretations of doctrine upon the international Communist movement. Moreover, short of a full resolution of Sino-Soviet differences, which we consider unlikely, the question of the attitude which should be adopted toward Belgrade will continue to be a major irritant in the relations between Moscow and Peiping. In these circumstances, should a serious crisis again develop in an Eastern European party, or should serious differences emerge in the Communist movement generally, it will be less easy than in the past for the Soviets to contain the disruptive influence which Yugoslav doctrines and methods represent.

~~SECRET~~

~~SECRET~~