

NIE 15-79

Prospects for Post-Tito Yugoslavia
Vol. II-The Annexes

25 September 1979



**Director of
Central
Intelligence**

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Prospects for Post-Tito Yugoslavia

**National Intelligence Estimate
Volume II – The Annexes**

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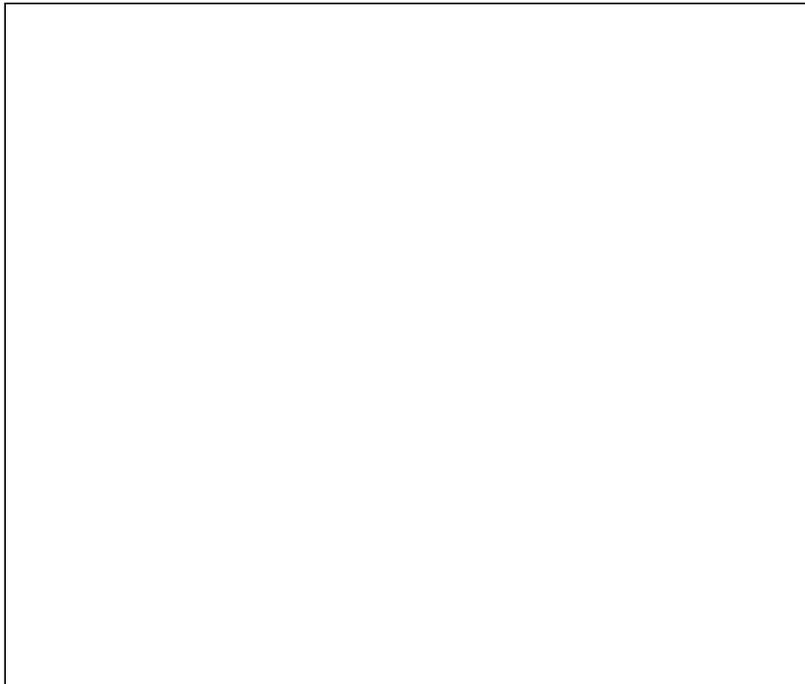
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NIE 15-79

PROSPECTS FOR
POST-TITO YUGOSLAVIA

Volume II - The Annexes

Information available as of 25 September 1979 was
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THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the intelligence organizations of the Departments of State and Defense, and the National Security Agency.

Also Participating:

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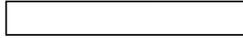
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CONTENTS

ANNEX A. THE LEAGUE OF COMMUNISTS	A-1
ANNEX B. THE ECONOMY	B-1
ANNEX C. NATIONALISM AND REGIONALISM	C-1
ANNEX D. THE YUGOSLAV MILITARY	D-1
ANNEX E. FOREIGN POLICY	E-1

iii

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ANNEX A

THE LEAGUE OF COMMUNISTS

1. Yugoslavia's chances of surviving the succession era more or less intact may ultimately depend on the unity and effectiveness of the ruling Yugoslav League of Communists (LCY). Tito himself regularly stresses that the party is the fundamental institution holding the diverse regions and peoples together. In recent years, Tito has improved the LCY's discipline and effectiveness, offsetting an erosion of party power that accompanied liberal reforms in the late 1960s. As a result of this revitalization, the LCY must be considered overall a significant stabilizing force, but it has yet to show it can rule well without Tito.

Tito's Party

2. Three and a half turbulent decades of Communist party rule in Yugoslavia have left the organization with a record of wide and continual fluctuations in political orientation. Loyalty to Tito and compliance with his wishes may, in fact, be the sole unchanged characteristic linking today's 1.77 million Communists to the small underground party which existed before World War II. Before Tito took over the then-named Communist Party of Yugoslavia in 1937, it was torn by factionalism. He purged dissenters as one of his first actions and has repeated the practice whenever necessary to assure compliance with changes in ideology and ruling style.

3. Early in their postwar rule, the Yugoslav Communists were a highly centralized, closely knit group of partisans. Their enthusiasm for the transformation to a "new Yugoslavia" and the strength of the Soviet example led them to embrace such an imported and unpopular concept as the "class war" against religious communities, the prewar "exploiting class," and private enterprise. The ill-advised attempt to collectivize agriculture also undermined the party's strong peasant support earned during the war.

4. The trauma of the break with Stalin in 1948, however, led the renamed League of Communists to broaden its popular base and initiate new policies in order to distinguish itself from the Soviet model. Divisive programs, such as collectivization, were abandoned and restrictions imposed on churches, private

artisans, and culture were gradually eased. By the mid-1950s, the party also advanced the highly popular concept of turning over factories to workers' councils, an innovation that attracted considerable interest in other East European countries.

5. The party itself, on the other hand, was geared for a life-and-death struggle against Soviet subversion and remained organized along the conspiratorial lines of the prewar underground movement. The new appreciation of the evils of the Soviet system led some prominent Yugoslav Communists—notably Milovan Djilas and Vladimir Dedijer—to attack also the privilege and arbitrary power of the Yugoslav ruling elite. But the partisan fraternity held together and purged and jailed the critics in its ranks. Discipline in the ranks was maintained through the party center's *nomenklatura* system for personnel matters. Dossiers in the party's central administrative apparatus became tools in the hands of the party leadership for protecting friends and ruining enemies.

6. By the 1960s, this patronage system had come under the control of Aleksandar Rankovic, an ambitious Serb conservative, who used it along with his overseer role in the secret police, to consolidate his personal power as Tito's heir. Rankovic blunted the economic and political reforms desired by other party leaders; they, in turn, conspired in his downfall and finally convinced Tito of his excessive ambition.

7. After Rankovic's purge in July 1966, the mechanisms of central party control came under persistent attack. Newly empowered conferences of party leaders in the regional capitals were given the right to control personnel policy within their jurisdiction. In 1970, the federal party did away with its own *nomenklatura* machinery and its commission on personnel questions, in a significant move toward restructuring the party along confederal lines.

8. The party simultaneously went through a period of redefinition of its "proper" role in society. Assertive liberals demanded a retreat from party controls on political life and called for other institutions—the parliament, press, judiciary, and trade unions—to function independently. Party-nominated candidates

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in local elections were defeated in several local elections, and rumblings about the formation of an opposition party were widespread.

9. Since Rankovic's cronies in the secret police had been purged, federal restraints on such heretical views were ineffective. The power vacuum created as a result of these inroads on federal party authority caused the revitalization of local politics foreseen by the liberals, but also led to an unanticipated eruption of nationalist passion. Croat nationalism, in particular, became so strong that it permeated the regional party leadership, which endorsed policies in direct confrontation with federal programs and goals. Younger Croats, including many Communists, scorned Tito's warnings about their activities, and nationalist programs culminated in a student strike in Zagreb in December 1971.

10. Tito responded with a vengeance, purging the Croat liberals and, a year later, like-minded leaders in other republics who had talked back to Belgrade. He also initiated a comprehensive campaign to restore credibility to the central party in Belgrade. Installing men personally loyal to him in the republic baronies, Tito greatly reduced chances for a return to defiance of the federal party by popularly supported local leaders. Reasserting the party's right and duty to interfere in political life, he rejected "alien" concepts of an independent press, judiciary, and legislative process and ordered party cells to assure political rectitude in these spheres of activity. He entrusted the day-to-day oversight of these ruling functions to a nine-man executive bureau made up of relative unknowns led by Stane Dolanc, a young Slovene with little previous experience in Belgrade.

11. Tito, however, refused to re-create the *nomenklatura* system, which had been abused by Rankovic, and left the routine personnel administration of the party to his trusted deputies in the individual regions. Appointments to the half dozen key positions in each republic, however, were reserved for his personal approval. He kept watch over the regional parties through information passed him by the federal apparatus, direct contacts with regional leaders, and an informal information network manned by wartime colleagues in retirement or semiretirement. Through this complex system he keeps appointed leaders at all levels uncertain of their status and checks on the accuracy of their personal reports to him on their stewardship.

12. Tito's vital role in setting policy guidelines and appointing key officials thus actually increased between 1972 and the present, despite his advancing age. His major provision for a transition of this power to the next generation was a gradual enhancement of Stane Dolanc's power to administer day-to-day affairs as head of the executive secretariat for the party hierarchy. At the 11th Congress, in June 1978, Dolanc was formally awarded a new post, secretary of the party Presidium, with attendant powers that ostensibly made him first among Tito's equal subordinates.

Rivalries and Stability

13. Dolanc, however, was unable to make his more senior colleagues accept practical measures which would place him in an unquestioned superior role. The party leadership split in July over allocation of responsibility within the Presidium. The old guard—headed by Bakaric—rejected a plan broached by Dolanc to create a small five-man "inner presidium"—led by himself. The dispute demonstrated how personal rivalries might shake the leadership after Tito's death. It proved a dubious beginning for the 24-member Presidium, which the congress had trimmed from its previously unwieldy 48-man membership and had given considerable new statutory authority—presumably to be exercised only after Tito's passing. A protracted deadlock left the federal party disorganized for several months and threatened to paralyze work by functionaries at lower levels of the bureaucracy.

14. The test of wills ended badly for Dolanc as Tito sided with the Presidium secretary's challengers. In October 1978, the Presidium announced new internal procedures which greatly diluted Dolanc's ability to claim leadership of the collective. The new rules expanding the "collective" nature of the Presidium make it statutorily impossible for anyone—except Tito, who is specifically exempt—to play a dominant administrative role or take actions without the consent of the majority.

15. The collective approach included the creation of a new annually rotating post, the presiding officer of the Presidium. The chairman's basic role is to act in Tito's place at Presidium sessions held when he is not present. In addition to this important honor, he greets foreign party leaders for Tito and collaborates with Presidium Secretary Dolanc in preparing Presidium business and keeping Tito informed of the body's activities. The presiding officer thus becomes a focal point for opposition to Dolanc because he now shares

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regular access to Tito—a function Dolanc had tried to monopolize.

16. Tito assigned Branko Mikulic, a 50-year-old former party leader from Bosnia-Herzegovina to the new post. Mikulic, on the weight of his promotion, marginally improved his positioning for the succession struggle. His tenure as presiding officer of the party, however, is limited to a one-year term and, in a published rotational scheme, seven leaders from the other regions are to assume the chairman's job after him.

17. With Mikulic's promotion to presiding officer and the old guard's reassertion of their intent to rule collectively, Dolanc found himself in an exposed position. As secretary of the Presidium, his role was restricted to mundane administrative duties and the continuing collective leadership campaign created few chances to expand his influence. In May 1979 he resigned his post as secretary, reportedly to take up some of Kardelj's important duties on the Presidium. Dolanc's position as a key player in the succession thus appears to be reasonably safe.

18. The real winners in the conflict were the party seniors on the Presidium who demonstrated their ability to veto the ambitions of a putative successor by strongly asserting the principle of collectivity. Well after the October decision, Tito spoke out at a trade union congress criticizing unnamed persons guilty of "leaderism" (*liderstvo*)—that is, an unseemly personal ambition to dominate the democratic collective. Seen widely as a rebuke to Dolanc, the *liderstvo* charge will be remembered and could be used against any would-be claimant to Tito's personal powers.

19. While Tito is still active the collectivity principle will have only limited practical impact, and it will likely be applied fully for the first time only after Tito dies or is hopelessly impaired. The party leadership will then have to wrestle collectively with difficult substantive decisions needed to reassure the population in the immediate transition period. The basic precepts of Titoism—self-management at home and nonalignment abroad—will, of course, provide a platform for reasserting continuity with the past. This advantage may well allow the party collective a short breathing space to sort out its internal power arrangements.

20. Tito's ability to make adjustments to new problems by personal decree, however, cannot be transferred readily to the new leadership team. The post-Tito regime will thus be hard pressed to make deci-

sions on problems that require fast reaction and cannot be finessed by a vague assertion of Titoist principles. Real problems are likely in these policy deliberations because members of the collective can cite ideologically acceptable arguments for many different policy proposals and because residual personal differences will hamper the collective's unity.

Key Institutional Problems

21. The LCY, in structure, remains a diverse federative party and the rank and file's allegiances tend to mirror the standard Yugoslav pattern of regional, republic, and federal loyalties—in that order. Most Yugoslav Communists never see party-related duty outside of their native regions. The few who do go either to Belgrade or into the Army for brief tours in the federal party apparatus. Communists called for service in federal positions cannot plan on a lifetime career in the capital because of a deliberate regime policy aimed at rotating about a quarter of the federal bureaucracy every four years. This rotation aims both at stopping the formation of cliques in important areas of the party apparatus and at widening the opportunity for federal experience to more Yugoslavs. Though the penalty is periodic loss of in-depth expertise, gains in expanding familiarity with the complex federal system may offset the sacrifice.

22. The insular experiences of most party members means that they are routinely exposed to narrow provincialism and are susceptible to local passions that conflict with the federal ideal. Moreover, the separate regions have different and conflicting political styles. The Slovene party, for example, tends to lead the way with progressive innovations, while republic parties in Bosnia-Herzegovina and Montenegro are slow to change old ways. Economic rivalries also mar party unity. A 1978 budget squabble, for example, saw the predominantly agricultural province of Vojvodina attempt to block federal funds for the tourist industry, which mainly benefits Croatia. Though the principal players in such recurring disputes are Communists, federalism frequently loses out to blinkered provincialism.

23. The ideology of Yugoslav Communism is highly experimental, pragmatic, and flexible and is conducive to factionalism and opportunism. It is doubtful that the large majority of party members adequately understand, much less commit themselves unreservedly, to a given party program. Major shifts in the party have occurred in each decade of Communist rule,

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causing purges and voluntary resignations affecting all levels of the party. One estimate, for example, asserts that 750,000 Communists—roughly 45 percent of the current membership—have left the party since the early 1960s. The current leaderships of parties in two vital regions—Serbia and Croatia—are made up largely of second-rate party apparatchiks who replaced talented and popular leaders purged for political errors.

24. Tito's passing will present long anticipated but unprecedented problems because the Yugoslav party has no postwar experience in political succession and no means for an institutional transfer of power. The normal complications are amplified by the need to find not only a successor to Tito, but also a new and viable ruling style. Party preparations to date, however, have been tentative and subject to frequent changes; Tito is disinclined to designate a party successor, presumably because he fears an heir would tend to become impatient and attract personal support, thus splitting the party leadership.

25. Tito has also been reluctant to see the men who loyally supported him in the underground party and the ensuing partisan war leave the scene. He soured on the postwar generation during the Croat events in 1971, when a few younger party leaders—relying on their local popularity—defiantly opposed him at critical moments. This reluctance to come to terms with the postwar generation has bequeathed a generation conflict between the top leadership and the rest of the party. Of 24 Presidium members, only three are postwar Communists, while two-thirds of the membership at large joined since the mid-1950s.

26. The experiences of the two sides of the generation gap differ significantly. The old guard's participation in the partisan war and revolutionary changes of the 1940s were not shared by the majority of the members under 45 years of age. The latter's earliest political experiences probably were the anxiety and hostility which followed the Tito-Stalin break. Moreover, the younger generations were more exposed in formative years to Western culture and to the rapid escalation of consumerism in the 1960s.

27. The partisan generation, including Tito himself, worries about the ideological rectitude and willingness to sacrifice of their progeny. Belgrade has strained the resources of the educational system, the graphic arts, and the publishing industry with propaganda aimed at perpetuating the partisan/revolutionary ethic. The regime permits no objective research on the success of

this effort, but most observers tend to agree that the passing of the older generation, within a decade or so, will see an acceleration of modernizing trends in Yugoslavia.

Assets

28. The LCY's major strength over the years has been its tactical flexibility. Tito's numerous amendments to the orthodox Communist dogma of his younger days have been in the direction of accommodating theory to the Yugoslav reality. His party heirs will thus have few immediately pressing reasons for radically altering his legacy.

29. The flexibility of domestic policy will also be served by the preponderance of party leaders in the current Presidium who have participated in the implementation of his ever-changing decisions in their lower level careers and in the refinement of more recent policy proposals. Since Titoism is a fluid system, Tito's heirs will have a reasonably broad range of maneuverability open to them, if they agree on which direction to take.

30. LCY membership is at an alltime high of 1.77 million—representing about one in 10 eligible (adult) Yugoslavs. The organization spreads throughout the country's populated regions—although private farmers (80 percent of the farm labor force) are seriously underrepresented. A party card is a requirement for appointment to responsible offices even in remote regions. All career personnel in the Army and the internal security establishment in practice must be party members and their careers depend on keeping in the good graces of the party leadership.

31. Tito's determined efforts since the Croat crisis of 1971-72 have greatly improved the assertiveness of the party at all levels of society. Party "collectives" in editorial offices, universities, industry, and regional government have reemerged as potent political tools for the regime. Leaders in key regional party posts are more dependent on Tito's endorsement than on local power bases, thereby reducing their inclination to ignore or alter federal party directives and conditioning them to look to Belgrade for guidelines. The Army party organization also is active in local party activities and this provides another check on any future tendencies toward regional autarchy.

32. While opposed to emulations of Western political systems, the party also draws strength from a deep,

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society-wide fear of the USSR. Party membership—an indicator of popular acceptance—has tended to grow rapidly in times of troubled relations with Moscow. Similarly, party membership has dropped or stagnated both during times of domestic instability and during Tito's periodic attempts at rapprochement with the USSR. (See accompanying table.) Substantial increases in the membership from 1973 onward have coincided with a steady deterioration in relations with the Kremlin.

The Forecast

33. The critical variable in the party's performance during the succession era will be the effectiveness and unity of the federal party leadership in Belgrade. Without strong direction from the center, regional party leaders will be tempted to find their own solutions to local problems and this inevitably would force accommodations with ethnic nationalism at the expense of the federal system.

Key Political Events in Yugoslavia as Related to Changing Party Membership

Year	Percent of Party Membership		Key Events
	Growth	Decline	
1946	60		Consolidation of Communist regime
1947	10		
1948	70		Break with Stalin
1949	9		
1950	13		Heightened Soviet invasion threat, US military aid begins
1951	14		
1952	8		Purge of Milovan Djilas and first Tito-Khrushchev rapprochement
1953	10		
1954	-7		End of first rapprochement, renewed Soviet-Yugoslav polemics
1955	-5		
1956	4		Second rapprochement begins
1957	14		
1958	9		Rankovic purge, liberal reforms undermine party prestige
1959	11		
1960	7		Soviet-led invasion of Czechoslovakia, relations with Moscow deteriorate
1961	3		
1962	-2		Purge of "rotten Liberals," Tito-Brezhnev rapprochement
1963	1		
1964	1		Revived fear of Soviet meddling, "Cominformist" anti-Tito activity
1965	1		
1966	1		
1967	-3		
1968	12		
1969	-3		
1970	-6		
1971	-2		
1972	-2		
1973	6		
1974	10		
1975	8		
1976	11		
1977	5		
1978	8		

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34. The extreme alternative, a highly centralized system of leadership, has important drawbacks—including unacceptable vindications of Soviet practices and built-in opposition at the republic levels—which should discredit this alternative as a viable solution. Advocates of radical decentralization and centralization, nonetheless, will press their programs with energy, thus contributing to political turmoil. The long-term effect of their actions, however, may well be to cancel each other's chances.

35. In the short run, the party is likely to adhere closely to the specific policy guidelines in effect when Tito leaves the scene, both to reassure domestic and foreign observers of continuity and to minimize disputes within the leadership while it works out a new ruling style. Belgrade, however, fairly soon—say within six months after Tito dies—will be faced with irresistible pressures to make important policy adaptations. Either economic issues contrasting the needs for austerity and high growth rates, or problems in key foreign relationships—especially tensions with the Soviet Union—are the likely catalysts. Indecision or deep divisions in the leadership over policy directions might well induce the first serious crisis for Tito's heirs.

36. The passage of time—and of the older generation of Tito's cronies—may see the evolution of politi-

cal coalitions that will have a new chance at improving political stability. The base of these coalitions is likely to be the country's younger officials (junior military officers, party functionaries, and key government and economic managers) who already exert considerable influence but lack the old guard's power over key political posts. The chances for repetition of centrifugal leadership in their hands is, of course, great but a capable leader, or tightly knit clique in Belgrade, could use the generational transition to link political fortunes—and common federal and republic interests—in more constructive ways.

37. Despite recent efforts to instill the principles of collectivity as the ruling style for the party, there will be an inexorable search for an individual to replace Tito as strongman and arbiter. Both Balkan tradition and the dynamics of Communist rule will drive this process. It is doubtful that any one of Tito's lieutenants can rapidly establish himself as strongman, but we do not discount the possibility that a strongman may emerge, even from the ranks of currently obscure leaders. Barring a serious deterioration of order as soon as Tito dies, which we think unlikely, the search for a strongman promises to be a gradual process gathering momentum through the first year of the succession, and gaining real strength from failures of collective rule in the two to three years after Tito's passing.

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ANNEX B

THE ECONOMY

1. The most significant economic factor for the stability of the post-Tito regime in Yugoslavia will be its ability to maintain acceptable levels of growth and the general confidence of the average Yugoslav that the standard of living will continue to improve. Although not a stated goal of Titoism, concessions to consumerism have been a key factor in the survival of the system.

2. Current economic trends, however, presage a decline in the rapid economic growth to which the Yugoslavs have become accustomed. Unsettling fluctuations in economic growth will probably continue, posing the danger of an economic recession coinciding with Tito's death and complicating delicate phases of the succession. Surging world oil prices and international financial problems—most beyond the regime's capacity to influence or insulate itself against them—link with domestic problems of growing unemployment and persistently high inflation in projections for a somewhat gloomier economic situation with or without Tito.

3. The main question mark after Tito will be whether his weaker successors will prove able to take necessary but unpopular steps in economic discipline while maintaining political stability. Failure to manage economic problems effectively will undermine federal authority and erode the confidence of Western banks, whose loans have financed much of Yugoslavia's growth.

General Characteristics

4. Yugoslavia's stage of economic development is well ahead of the Third World average, but behind that of the lesser developed Western countries such as Italy. Per capita income in 1978 was about \$2,500 and 30 percent of the work force is agricultural.

5. The economic system is a hybrid of planned- and market-economy features based on an ideological core of experimental worker control called self-managing socialism. Although self-management in practice falls far short of its theoretical aim of giving workers

councils control over work places, the system permits participation by workers who are still making the transition from a rural to an urban, industrial regimen.

6. Uncontrolled growth is a perennial problem. The regime has tried with only occasional success to contain chronic inflation and create the basis for more stable long-term growth patterns. As it is committed to sweeping economic decentralization, however, Belgrade has few reliable levers for forcing adherence to its economic policy. The stabilization effort has thus succeeded best, as in 1976, when Tito and the party concentrated their efforts on "jawboning" regional and industrial interests into compliance with economic restraints from Belgrade. Such efforts, however, only temporarily hold investment demand and inflation in check. Subsequent resurgence of pressure for faster growth is irresistible, as the alternative of declining popular morale has proved politically unacceptable.

7. Autarchic attitudes prevailing in the six republics and two autonomous provinces contrast sharply with the federal goal of creating a unified market. The structure of economic activity reveals that there are, in effect, only regional economies within the Yugoslav federation. Willing interrepublic investments and open competition for countrywide markets are rare because of the strong counterinfluences of narrowly focused interests at work in each region.

Current Trends

8. During the 1970s the pattern of growth in gross national product has generally been one of peak years (1971, 1974, and 1977-78) interspersed with periods of markedly lower achievements. Periodic slumps in annual growth of gross national product have deepened in the later 1970s—down to an average of 3.9 percent in 1975-76 from a 4.5-percent rate during an earlier slump in 1972-73. These mark a troublesome trend, especially because unemployment has increased steadily throughout the decade. Coinciding labor productivity declines also gained momentum in the 1970s as industries hired excess workers to contain political fallout from unemployment. (See figure B-1.)

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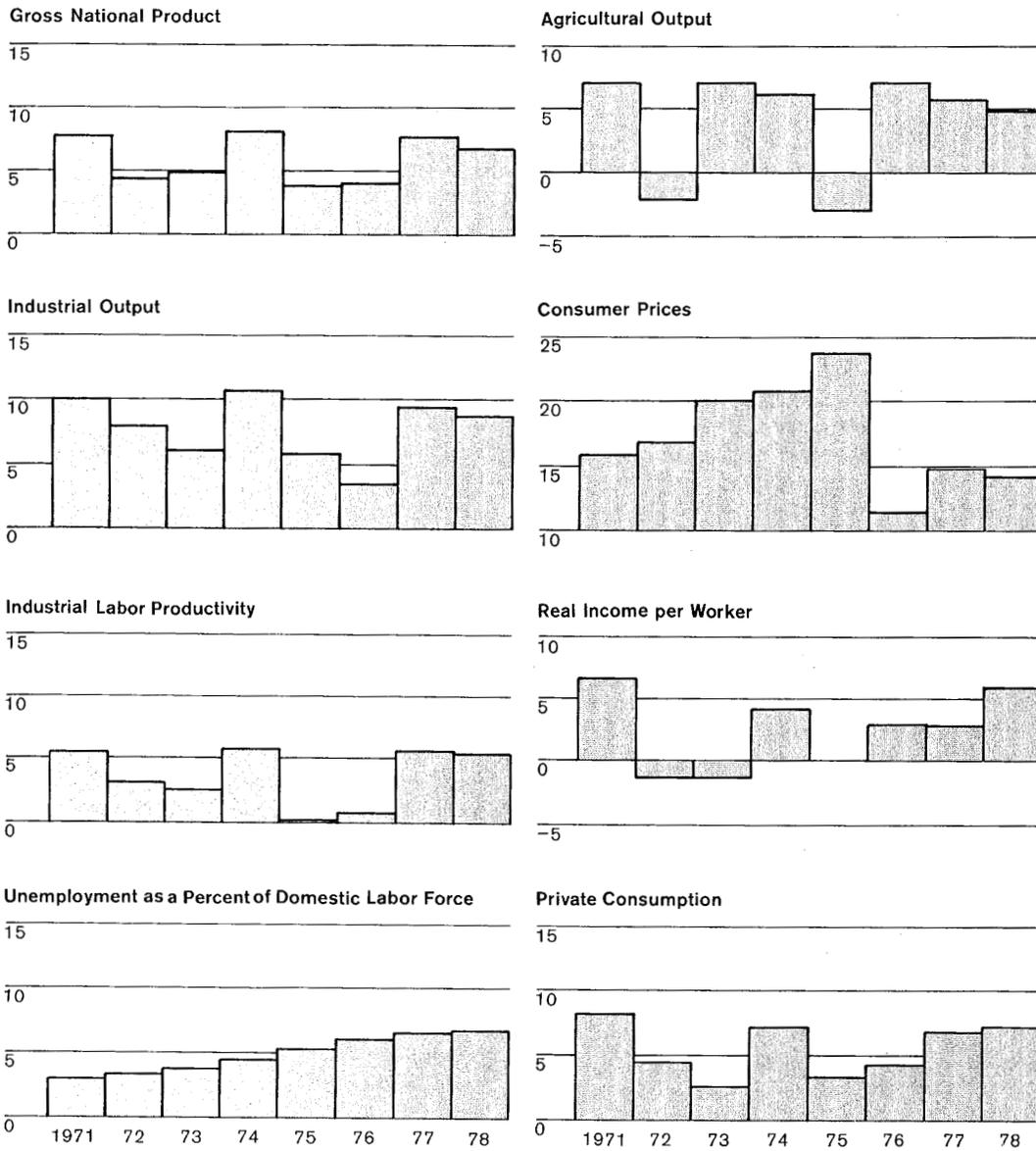
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Yugoslavia: Trends in Key Growth Indicators, 1971-78

Figure B-1

(Percent of Increase or Decrease)



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9. Rising unemployment is the critical concern. In 1978, an estimated 6.8 percent of the Yugoslav labor force was out of work, double the 1970 rate. Unemployment is greatest in the rural southern regions, which are plagued by rapidly growing populations and insufficient job-creating investments. Since 1973, the country's unemployment problem has been aggravated by the return—because of reduced labor demand—of about 250,000 workers who had been employed in Western Europe. About 700,000 Yugoslavs, equal to about 8 percent of the labor force, are currently in Western Europe.

External Imbalance

10. Yugoslavia's recent economic cycles betray vulnerability to external borrowing constraints, international inflation, and Western demand for Yugoslav exports. External deficits have become increasingly serious since 1973, mainly because of the economic slowdown in Western Europe. This factor, aggravated by world commodity price increases and Yugoslavia's high economic growth and inflation rate, has sharply boosted Yugoslavia's trade deficits. Since 1973, the hard currency deficit has averaged over \$3 billion per year. Three-fifths of this gap reflects trade with the European Community, whose imports from Yugoslavia are only one-third of its exports. Uncompetitively high Yugoslav prices, quality control problems, and a poor mix of goods have decreased the competitiveness and market share of Yugoslav exports to the West and have boosted import costs. Moreover, recession-induced protectionism in the EC has restricted some markets for traditional Yugoslav products, such as baby beef, which before 1974 were mainstays of its export program. EC restrictions, combined with overheated Yugoslav domestic demand, have turned Yugoslavia from a net exporter to a net importer of foodstuffs, while imports of fuels, industrial materials, and Western equipment have continued to climb.

11. The surplus in invisible earnings—from transportation, remittances from workers abroad, and tourism—which offset trade deficits in 1972-73, has fallen since. Growth of remittances from Yugoslav workers abroad, which account for about 25 percent of receipts, and growth of net earnings from other invisibles have also been undercut by increased Yugoslav travel abroad and slackening demand in Western Europe. Tourism receipts jumped last year because of the depreciation of the dinar, but net earnings were still below the 1974 level. (See figure B-2.)

The Borrowing Syndrome

12. Yugoslavia has financed these deficits almost entirely by borrowing in the West. Its net medium/long-term debt in hard currency was \$7.4 billion at the end of 1978, more than four times the 1970 level. (See figure B-3.) About 60 percent of total borrowing has consisted of Western bank loans and 15 percent of loans from the International Bank for Reconstruction and Development (IBRD). Such borrowing has been easier because of the high liquidity in international financial markets in most years. Yugoslavia has usually had little difficulty borrowing in the West. Nevertheless, as measured by margins above LIBOR (the London Interbank Offered Rate, which is the market rate of interest for six-month Eurodollar loans in London), it must pay relatively high interest on loans, implying uneasiness in Western financial circles about the future without Tito. Tito's presence maintains the confidence of Western lenders, because he has been able to quash divisive regional squabbles over investment allocations, and periodically to restrain surges of inflation with unpopular but grudgingly accepted curbs on spending and prices.

13. Sizable external deficits emerged in 1970-71, 1974, and 1977-78, when the need for faster economic growth accelerated domestic demand and inflation. Conversely, the need to rebuild hard currency reserves after a rundown caused by an external financing pinch forced Belgrade to apply the brakes in 1972-73 and 1975-76 and slow the growth of GNP and employment. Growth of private consumption fell below 3 percent in 1973, after Tito limited wage increases such that they lagged behind price increases, causing a reduction in real income. He did, however, also apply pressure on managers and workers through the party apparatus to restrain sharp rises in prices and spending. In 1975-76, growth in living standards also slowed, in part because of Belgrade's stiff restrictions on consumer-goods imports and consumer credit. The regime applied only slight restraints during the 1977-78 boom, urging more selective spending on imports, imposing a minor curb on bank credit, and increasing countertrade requirements for imports.

Trading Partners

14. Yugoslavia's foreign trade is dominated by the developed West (50 percent of total trade), with the less developed countries (LDCs) taking a small 15-percent portion and the Communist partners making up the remainder, about 35 percent. The Western share

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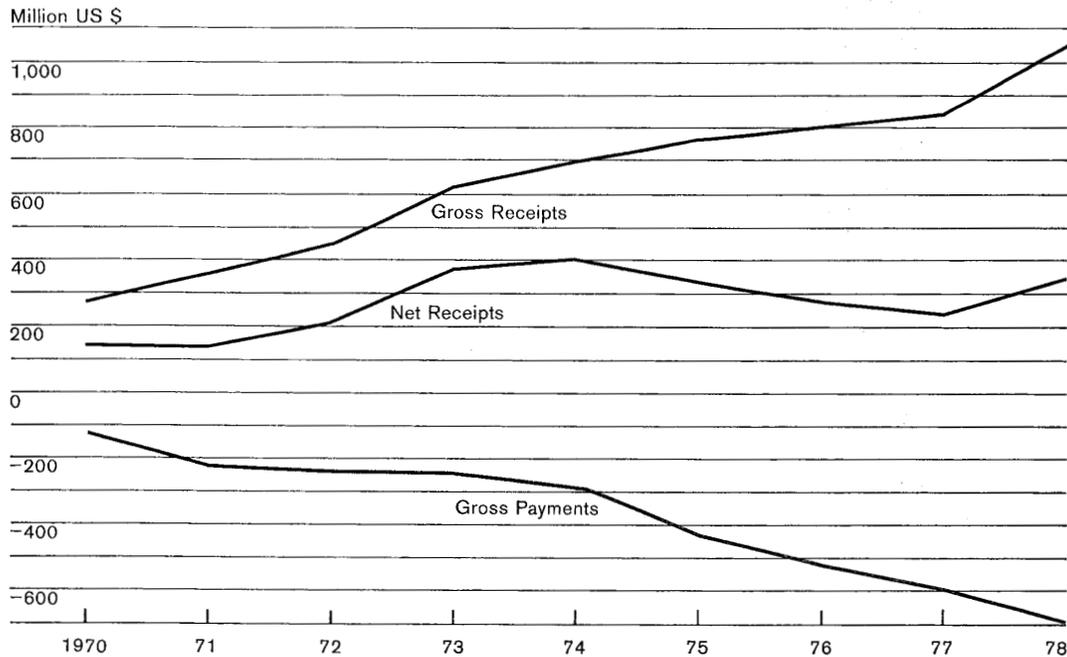
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Yugoslavia: Tourism and Travel Balance of Receipts and Payments

Figure B-2



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has been declining since 1973, however. Belgrade seeks to restore it—and to ease its hard currency pinch—by securing increased market access and credit from the EC. The Yugoslavs refuse, however, to accept a formalized special relationship with the EC, which they fear would compromise their independence and their economic relations with the Communist countries of the Council for Mutual Economic Assistance (CEMA). Belgrade is not a full member of CEMA and has only limited ties with it.

15. Failure to increase its exports significantly in order to balance growing trade with the West induces Belgrade periodically to explore expanded economic relations with the Soviet Union and its CEMA partners. Growth of this trade is inhibited by Belgrade's wariness of likely political "strings," by its comparatively stronger inclinations to trade with the West, and also by Moscow's diminishing ability to boost its credits and its deliveries of energy and raw materials.

16. The USSR and Eastern Europe have accounted for about one-third of Yugoslav trade since 1975, after a rapid rise from about one-quarter in 1970. The increase during the 1971-75 period reflected mounting Yugoslav hard currency problems that forced a redirection of trade from the West. The Soviet Union has become Yugoslavia's largest trading partner and has maintained a 16- to 18-percent share of total trade since 1975, as compared with 10 percent in 1970.

17. Yugoslavia's trade with the USSR, East Germany, and Czechoslovakia—three-fourths of its dealings with the East—is carried out under clearing agreements that do not require payments in hard currency. Under these agreements, Yugoslavia has imported increasing amounts of key commodities—Soviet or East European coking coal and Soviet crude oil (which now makes up about one-third of Soviet exports to Yugoslavia), equipment (one-fifth), and cotton. In return, Belgrade traditionally exports ships,

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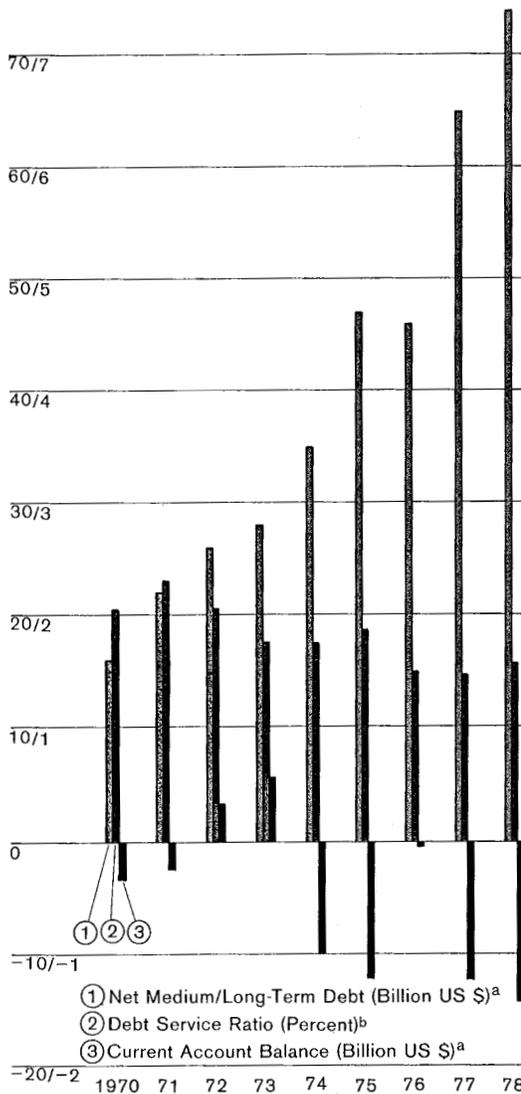
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Yugoslavia: International Financial Position, 1970-78

Figure B-3

Percent/Billion US \$
80/8



- ① Net Medium/Long-Term Debt (Billion US \$)^a
- ② Debt Service Ratio (Percent)^b
- ③ Current Account Balance (Billion US \$)^a

^aData in convertible currencies.
^bRatio of debt service to total hard currency receipts, including worker remittances.

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electrical equipment and other machinery (which constitute almost half of deliveries made to the USSR), clothing and shoes (one-fifth), and other manufactured consumer goods.

The Forecast

18. In the next three to five years, economic growth will probably slow to well below the 5.9-percent cumulative average of the 1970s. Yugoslavia will have difficulty reaching a 5-percent growth rate during the next (1981-85) development plan. Among the consequences of slower economic growth will be a rise in unemployment. Furthermore, it is also likely that, despite lower peak rates of growth, the cyclical growth pattern will continue and there will be little abatement of inflation. A steadier growth pattern would be politically difficult to impose, requiring unpopular restrictions on regional economic independence.

19. If Western banks remain highly liquid and retain confidence in the Yugoslav leadership's ability to keep the economy under control, sufficient funds should be forthcoming to cover current account deficits over the next three to five years. Yugoslavia's debt service ratio is likely to remain below 20 percent—a good average for non-oil-exporting LDCs. If Tito's current efforts to convince the EC, its primary hard currency market and supplier, to increase market access and grant easier credit terms are successful, they might alleviate debt problems. Such concessions alone are not likely, however, to solve these problems. Nor is Yugoslavia likely to achieve any significant reduction in the currently growing deficit with the United States.

20. Despite possible political advantages, the Soviet Union would have difficulty increasing exports to Yugoslavia in light of mounting pressures on Soviet resources and competing demands from the USSR's Warsaw Pact allies. Soviet energy exports to Yugoslavia are probably near their apex now. Currently, the Soviet Union is leveling off its oil and coal exports to Yugoslavia and has cut its commitments on gas deliveries in 1980. Under clearing account, the Soviets provide nearly half of Yugoslavia's oil imports, but Soviet oil and coking coal account for less than 20 percent of Yugoslav energy consumption.

21. Even if Tito remains in charge, Yugoslav economic problems over the next three to five years will become more difficult to manage. Belgrade probably will incline toward pushing economic expansion and decentralization policies, accepting the inevitable do-

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mestic inflation, and relying largely on borrowing abroad to finance external deficits. Tito has frequently indicated that further progress in solving Yugoslavia's economic problems would depend mainly on Western financial and trade concessions. The basic domestic factors—slowing productivity growth, excess aggregate demand resulting from overzealous investment activity, and failure to restrain consumer demand—are not likely to change significantly.

22. Productivity prospects are darkened by a new decentralization program designed to promote political harmony. Federal authority over investment spending is being further diffused to regional governments, independent public bodies, and the federal-regional consultative process. These measures increase the already cumbersome bureaucracy and give a freer hand to autarchic regional interests. Their inclinations to redundant investment in manufacturing industries and to underdevelopment of energy, industrial materials, and infrastructure will keep investment efficiency low.

23. Recent signs of incipient external financing constraint and increased inflationary pressure have impelled Belgrade to announce policies of stabilization and restriction, but these may not be strictly enforced until the financing crunch becomes tight. Aggravated by a poor harvest and faster rises in industrial wages than in productivity last year, cost-of-living increases accelerated to 13.5 percent during January-June 1979. With imports rising twice as fast as exports, the trade deficit in that period was 49.5 percent above the January-June 1978 level. During most of 1977-78 Belgrade had covered such deficits entirely with drawings on new credits. In 1979, however, for the first time in two years, Belgrade has met part of the imbalance by drawing on its hard currency reserves, which declined almost 30 percent during February-April. Federal authorities have also imposed higher taxes on luxury goods and, furthermore, have taken steps to restrict investment and consumer credit. They are also attempting to expand countertrade arrangements in foreign trade in order to improve the balance of payments. In 1971 and 1975, however, such programs proved ineffective until enforcement was heightened when reserves—now equivalent to the cost of two months' worth of imports—had declined to little more than one month's imports.

24. Over the medium term, increases in Yugoslav consumer prices probably will exceed the 1978 rate of 14 percent even if world commodity prices remain relatively stable. And more marked increases in oil

prices resulting from action by the Organization of Petroleum Exporting Countries (OPEC) could hobble anti-inflation efforts weakened by the depreciation of the Yugoslav dinar in relation to West European currencies and by the new decentralization program. Attempts to stabilize prices through new laws that give customers and individual workers influence in enterprise price-setting have proved futile. Monopolistic practices by regional interests continue to stimulate the wage-price spiral.

25. Regional economic disparities are likely to intensify. The income and employment gap between northern and southern regions will widen because of more rapid population growth in the south. Although two-thirds of current World Bank loans are earmarked for the south, the south's main development projects—energy, raw material, and infrastructure investments—are and will remain behind schedule and slow in yielding returns. These capital-intensive projects have more difficulty attracting domestic investment than the labor-intensive manufacturing industries that are located largely in the affluent north. These latter industries offer the prospect of higher and quicker return at lower risk.

26. Yugoslavia's energy problems are particularly severe. The country, which imports about three-fourths of its oil (depending about equally on the USSR and OPEC countries for 90 percent of its imports), will be hard hit by the recent surge in oil prices. Its oil import requirements, furthermore, are likely to grow because domestic oil reserves are being depleted. Planned growth of coal and natural gas output has fallen far behind schedule, and coal is unlikely to catch up. Soviet gas commitments have been cut, and Yugoslav nuclear power development is just getting off the ground. Meanwhile, growth of energy demand has been accelerated because of increased automobile use and priority expansion of the petrochemicals industries.

27. Oil imports, particularly since 1975, have accounted for a substantial share of energy consumption (32 percent in 1978). However, despite large increases, oil imports have not kept pace with energy demand. To deal with the lag of actually available oil behind planned petroleum consumption, the authorities have imposed restrictions on motorists. Under current consumption plans, the oil import bill in 1980, because of recent jumps in world oil prices, would reach \$2 billion, almost triple the 1975 level. (See figure B-4.)

28. Yugoslavia faces many obstacles in its efforts to reduce its balance-of-payments deficit. Hard currency

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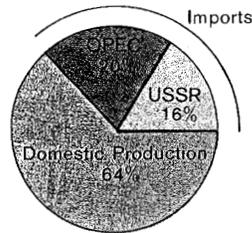
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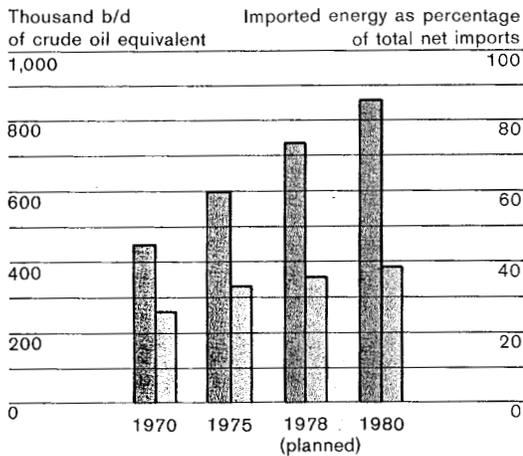
Yugoslavia: Energy Trends

Figure B-4

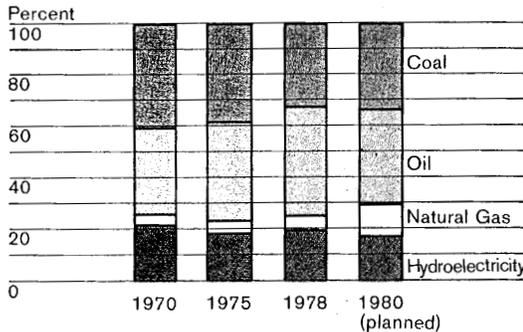
Overall Dependence on Imports, 1978



Energy Consumption Trends



Energy Consumption Patterns



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earnings are not likely to grow as rapidly as in the past. Competition for exports to hard currency markets will increase. Production shortfalls and rising demand at home will reduce exports of nonferrous metals and agricultural products. Increases in worker remittances—Yugoslavia's largest hard currency receipt—will be limited by West European inability to absorb more foreign labor.

29. Furthermore, Yugoslavia will find it difficult to slow the rate of its hard currency outlays. The reduction in real import growth to be expected from slower real GNP growth will be offset by increased import costs. Moreover, plans to halve material imports by 1980—which, given GNP growth targets, must be viewed as highly unrealistic in any event—already are showing signs of foundering. For example, shortfalls in domestic metals production have necessitated upward revisions in metal import plans. Furthermore, existing long-term orders will sharply boost imports of Western machinery and equipment. Finally, the new decentralization program is giving import-minded regional groups a greater say over hard currency allocations and borrowing limits.

30. With imports continuing to outpace exports, the annual hard currency financing requirements of a 5-percent GNP growth rate probably will exceed \$2 billion. Although Belgrade has considerable funds in hand—\$1.7 billion in official reserves and \$3 billion in promised but still-unused credits, including World Bank commitments of \$200 million yearly through 1980—much more will be required. Private foreign investment will not fill much of the gap unless, at a minimum, changes are made in restrictions built into the regime's foreign investment legislation.

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ANNEX C

NATIONALISM AND REGIONALISM

1. Yugoslavia has the most complex and volatile mix of ethnic minorities in Europe. Eight major ethnic groups make up 95 percent of the population. None can claim a numerical majority of the population. (See figure C-1.) Five of the six most numerous groups are South Slav in origin (the sixth is Albanian), but they are assertive about their separateness and zealously competitive. Seventeen smaller ethnic groups—making up less than 4 percent of the total population—spice the mixture. About 1 percent of the population identifies itself as Yugoslavs.

2. Cultural cleavages roughly follow historical religious/geographic divisions. About 50 percent of the Yugoslavs claim Orthodox religious and cultural antecedents, approximately a third are Roman Catholic in origin, and the bulk of the remaining Yugoslavs have ties to Islam. The Catholic Slovenes, Croats, and Hungarians live in the north and west—and historically look westward for cultural kinship. In the south, the Serbs, Macedonians, and Montenegrins have a more insular culture, having adopted some traits of the Turks during four centuries of subjugation to Constantinople. Pan-Slavic influences—and affinity for Orthodox Russia—also were strong while the Turks still dominated the region.

3. The geographic distribution of ethnic minorities generally finds competitive focal points of ethnonationalism along regional boundaries. Most frequently, tensions have radiated from areas containing Serbs in minority relationships to locally more numerous Croats, Albanians, or Muslims. The Republic of Bosnia-Herzegovina, for example, contains roughly 40 percent Muslims, 37 percent Serbs, and 20 percent Croats. Similarly, the Serb contingents in Croatia and in Kosovo number less than a fifth of the regional populations, but intolerance there led to bloodbaths in the last war and serious unrest in more recent times.

4. An important aspect of the nationality problem is local loyalties of the South Slavs, which frequently divide Yugoslav minorities into regional and family subgroups that feud, plot for ascendancy, and block efforts to lead them. Maintenance of political controls

over such subgroups has been difficult without ultimate reliance on the threat of harsh measures. Though the family clan is losing ground, regional cliques of conationalists perpetuate the old clan mentality in industries, the party, and even, to a lesser extent, in the more disciplined Army.

5. The history of the South Slavs is one of divisions and foreign domination. The imminent collapse of Austria-Hungary and the Turkish Empire in the late 19th century gave new life to the idea of a union of South Slavs. The South Slav dream was advanced by leading intellectuals in each of the separate ethnic communities. Common enthusiasm over achievement of their goal of a unified nation after World War I, however, was short lived. Serbia, which sacrificed the most during the war, asserted its leadership of the union under a Serbian royal house with a Serb-Montenegrin army serving as its domestic gendarmerie. The other minorities soon felt threatened by central policies hewed according to Serb interests.

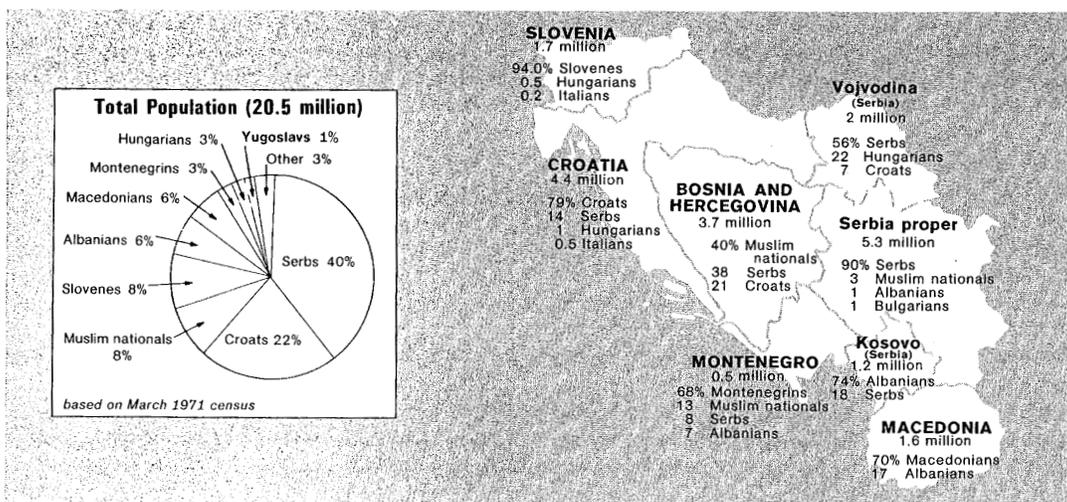
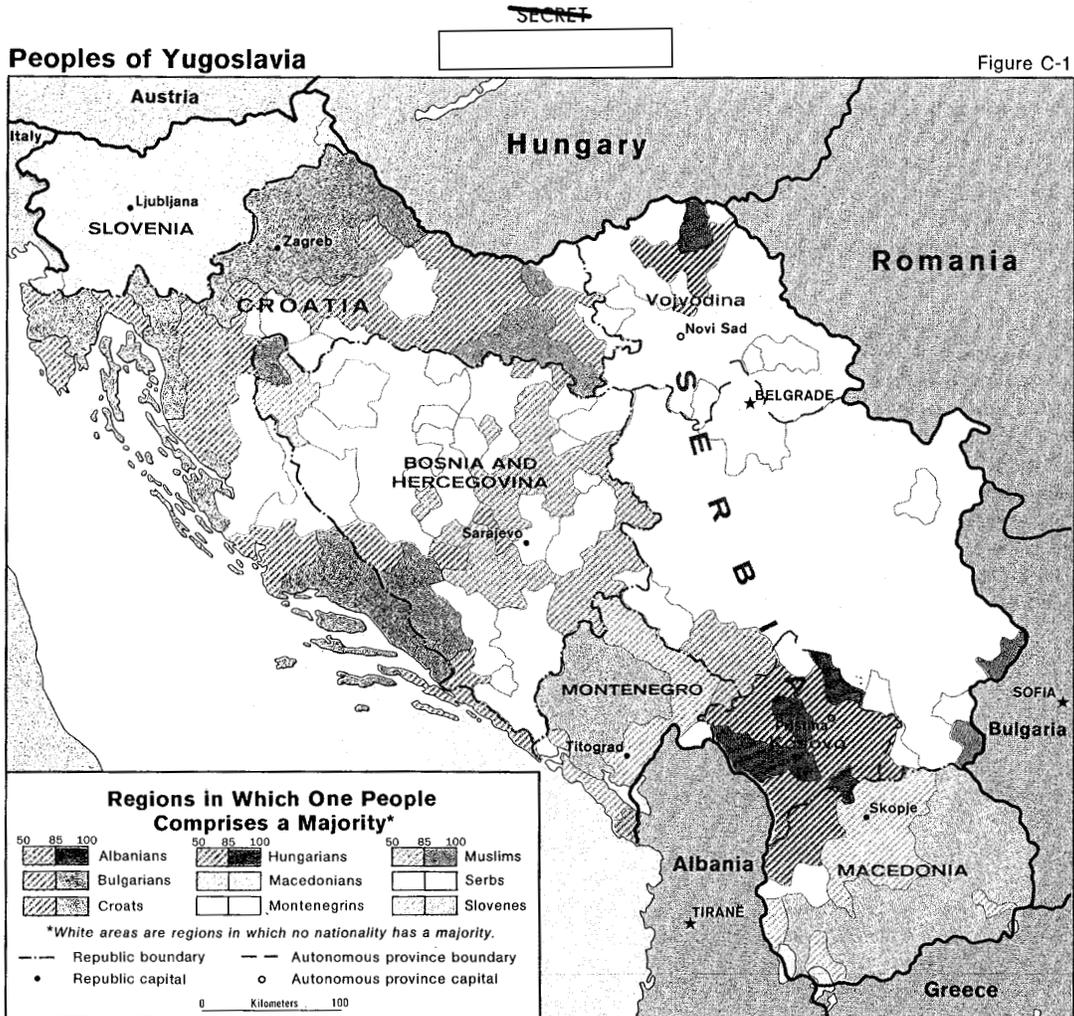
6. Prewar Yugoslavia dissolved following the German invasion in 1941 because of both centrifugal nationalism and lack of general support for the corrupt and capitulationist Serb-dominated government. A bitter partisan war—against the Germans and between political factions in a coinciding civil war—was finally won by Tito's Communist forces. The Communists did so with a political program based on the slogan "Unity and Brotherhood" as a broad appeal to all segments of Yugoslav society.

7. Flushed with victory at the end of the war and determined to remake Yugoslavia into a revolutionary Marxist state as quickly as possible, the Communists unaccountably proceeded to repeat some of the basic mistakes of royalist Yugoslavia. Croatia, which sided with Germany and had its own independent fascist state during the war, suffered retributions for its genocidal treatment of Serbs in the coinciding civil war. The Yugoslav Army—led once again largely by Serbs and Montenegrins—also put down revolts in Kosovo with a harshness reminiscent of medieval Serb-Albanian encounters. Reconstruction of the war-

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battered country gave precedence to regions which had most loyally supported the partisan forces of Marshal Tito. The ideological fervor of the times also produced excesses in the name of creating a new Yugoslav man and thereby putting the party in conflict with the strong cultural and ethnic loyalties. Following the break with Stalin, however, the party went through an ideological rebirth as an anti-Soviet Communist party, and its dictatorial methods changed.

8. Evolution of a Titoist solution to the nationality question began to take shape, but the metamorphosis was halting as the ideological burden of the Soviet model dissipated slowly. Privileges of the war winners (largely Serbs and Montenegrins) were also tenaciously entrenched. Aleksandar Rankovic, the senior Serb in Tito's retinue and in the mid-1960s his apparent heir, became the power behind the throne, controlling the secret police, the Army, and the party cadres' organization. He undermined reforms until July 1966 when he was purged by Tito for his unseemly ambitions.

9. The way was open for long-suppressed reform, and Yugoslavia immediately plunged into experiments with fundamental political repercussions. The central party administration, at the Ninth Congress in 1969, stripped itself of coercive powers and ceded its disciplinary functions to grass-roots organizations. Economic reforms—on the books since 1965 but inhibited by Rankovic and his followers—surged toward a socialist market mechanism and encouraged regional autonomy. The secret police—the much-feared UDB—was drastically reduced in size and authority after purges of Rankovic's followers.

10. In the atmosphere of the times, nationalist riots by Albanians in Kosovo and Macedonia in 1968 were seen largely as an expression of legitimate pent-up grievances rather than an expression of rising expectations. Throughout 1969 and 1970, however, Croat nationalism welled up, gradually raising issues in direct conflict with federal principles. Croat students began to talk of a Croat National Army and a separate road for Croatia. The Serbs in Croatia—remembering the genocide of the fascist period—agitated for support from their fellow Serbs elsewhere. By December 1971, a major crisis loomed. A student strike in Zagreb in protest over Croatia's contributions to development of the southern regions was the last straw for Tito.

11. He moved swiftly and arbitrarily, ignoring his subordinates' desire that the issue be played in a low

key. With the Army behind him, Tito purged the Croat party of nationalists and "rotten Liberals," jailed the main instigators of the Croat "mass movement," and strongly reasserted the powers of the central party and its coercive arm, the secret police. He later turned his attention to liberals in other republics, sacking key party leaders in Slovenia, Macedonia, Serbia, and the province of Vojvodina. After throwing out the reformers, he promoted in their place men who had fought the war with him and had early experience in revolutionary Yugoslavia's secret police.

12. For the ensuing five years or so any Yugoslav rash enough to voice nationalist or dissident political aspirations risked a stiff jail term. The judgment was often made that Tito had turned the clock back to 1945, but he had not been so drastic in his goals. Tito kept the Serbs and Montenegrins in check—so much so that they still complain of diminishing influence in Yugoslavia. He also allowed the economy to continue slowly along the main lines of the reform of the late 1960s and he only partially rebuilt the central party apparatus and secret police authorities of the previous era. (He also made certain that oversight of these functions did not fall into the hands of Serbs and Montenegrins.) His retrenchment, however, aimed at assuring that the course of reform would be closely monitored and braked by a Communist party committed to protecting federal interests.

Titoist Nationality Policy

13. Progress has been made despite these years of turmoil. Tito's system—troubled as it is—has come to recognize the strength and durability of ethnic and regional interests, and grants them legal recognition and ideological acceptability. Titoism, however, also insists on the regime's exclusive right to mediate important conflicts of interest and punish individuals who do not play by the party's ground rules. The principal impact of this policy has been to strengthen diversity and ethnic identification and to structure most institutions—prominently excepting the regular military establishment—along confederal organizational lines. The geographic administrative components of the Federal Republic are thus strong political subdivisions which require equally strong federal leadership to overcome their tendency toward provincialism. This form of rule has spawned constant debate over the needs of the moment for either more or less decentralization.

14. The regime, for example, has recently turned away from its five-year period of emphasizing central-

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ization of party power and strict discipline over assertive members of the ethnic minorities. The drive gradually lost internal momentum as ritual orthodoxy threatened to stifle local initiatives and increase pent-up resentments. The party hierarchy recently endorsed a return to innovative political experiments aimed at once again softening its ruling style.

15. The main motive of the proposed changes is to foster constructive dialogues among key interest groups within the system. The regime is advancing a systemwide network of "consultations" on important decisions prior to actual promulgation. The agreement-seeking process serves as both a forum for compromise between interested groups and as a means for early warning about intractable differences. However, the price for consultative policymaking has been delay in federal government legislation and disorderly development of comprehensive programs.

16. Belgrade also takes pains to demonstrate balanced minority inputs to federal decisions. Appointive posts within ministries, the party hierarchy, and the military are filled on a proportional basis among the various nationalities. Moreover, the federal bureaucracy regularly rotates its members to assignments in their home regions. In principle, such measures are intended to block a return to a permanent federal bureaucracy dominated by Serbs and Montenegrins at the expense of others. The system appears to achieve its goals as a political demonstration of impartiality. As a practical matter, however, rivalry for key federal jobs is intense and the inevitable compromises rarely satisfy all the players. The tendency is to create oversize bureaucracies in order to offer enough posts for each of the six republics and two provinces to have adequate representation. Grumbling over nonmerit appointments and an inefficient bureaucracy is an inescapable byproduct.

17. Among the major specific successes of Tito's nationality policy is the establishment of a strong sense of nationhood among the Macedonians. Providing this ethnic minority a right to its own literary language, separate Orthodox church, and, above all, its own geopolitical entity as an equal republic in the Yugoslav federation, Tito has persuaded the Macedonians that their interests lie within a united Yugoslavia. Because the Macedonians are the object of Bulgarian irredentism, the Macedonians' strong identification with the Yugoslav idea is a decided plus for the succession period.

Economic Accommodations

18. Yugoslav economic policy historically has swung between expansion and contraction, partly because of cyclical attempts to placate regional and ethnic rivalries by rapid economic development. When massive spending threatens to boost deficits beyond limits of external financing, Belgrade applies ad hoc restrictions that temporarily reduce economic growth and regional independence and heighten chances of morale problems.

19. Aversion to federal economic restraints has generated strong pressure for regional economic autonomy from Belgrade. To placate these demands, Belgrade has, since 1965, decentralized much of its formal economic authority. Although most major economic decisions are made in federal-regional consultations, they are usually shaped largely by demands of the regional interests. As a result, the federal government's array of formal economic controls is now far less than those existing in other East European countries.

20. During the 1970s, prices—though fluctuating widely—still increased by an average of 17 percent annually, in part, because of failures to economize by reducing the monopolistic collusion practiced within republics by local authorities, banks, enterprises, and workers' councils. Republic-centered economic policies limit competitive interregional trade and permit regular evasions of federal economic decisions. Despite Belgrade's best efforts, for example, regional demands for glamour investments—sharpest in the developed northern regions—have continued to create considerable excess capacity and duplicative investment which frustrate Belgrade's anti-inflation policies.

21. Another politically sensitive and intractable economic problem is the economic disparities between the northern and southern regions. Per capita output in the north is double that of the poorly developed south. Surging population growth in the south also creates great difficulties in improving job availability and the standard of living. (See figures C-2 and C-3.) In the sharpest contrast in achievement, the autonomous province of Kosovo has a per capita income only one-seventh of that in Slovenia, the most developed republic. Economic grievances in Kosovo goad the young (the average age of the population is now under 25) and impatient Albanian population into periodic acts of frustrated defiance of Belgrade.

22. A controversial federal program of redistributing about 3 percent of northern income to the south in

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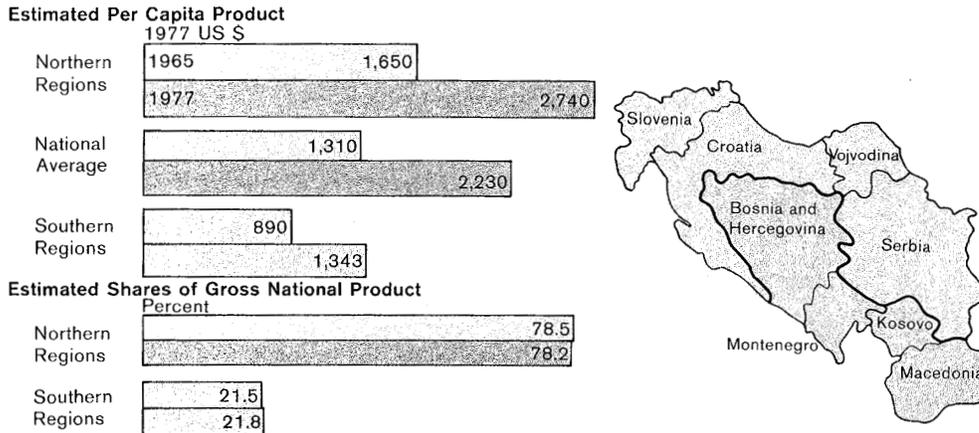
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Yugoslavia: Regional Disparities, 1965 and 1977

Figure C-2

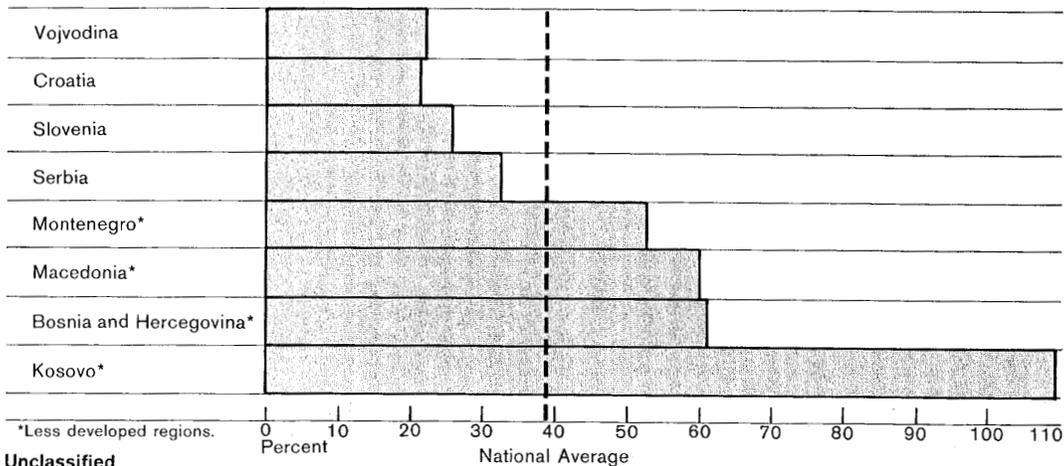


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Yugoslavia: Population Growth, 1948-78

Figure C-3



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the form of long-term investment loans and social service subsidies has been in effect since the mid-1960s. It has not compensated for the dearth of voluntary investment by northern officials who consider southern projects alien and unprofitable. Nor has it achieved its goal of narrowing the development gap in the country. (See figure C-4.)

23. In the last complete five-year plan (1971-75), 3 percent of federal investments—more than \$1.9 billion—plus another \$800 million in budget subsidies, was channeled into the south with the stated aim of helping it catch up with the more developed north. Over \$3 billion more in special investment funds alone have been committed in the 1976-80 plan period.

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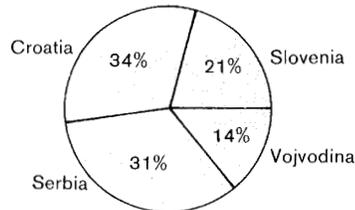
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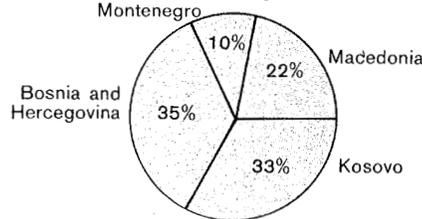
Yugoslavia: Economic Aid From Northern to Southern Regions, 1971-75 Figure C-4

Total 2.15 Billion US \$

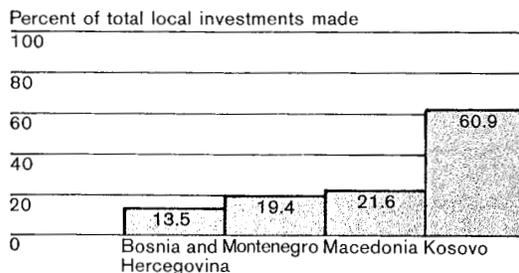
From Northern Regions



To Southern Regions



Southern Regions' Dependence on Special Development Funds, 1976



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Although progress has resulted, there is little appreciable narrowing of the gap as the more efficient north still outpaces the south despite the supplementary funds. The developed regions resent the tax drain of the special development programs, particularly as it shows no sign of diminishing over the long term. The less developed regions lobby for more aid, pointing out the political consequences of the high expectations the regime's promises have fostered.

24. Yugoslavia has little choice but to continue politically motivated compromises in dealing with regional inflationary pressures and economic disparities that are politically sensitive. More federal economic and spending authority is being diffused to regional authorities and to independent public bodies under the operations of the federal-regional consultative process. The announced aim is to decrease regional oligopoly and autarchy through expanding local economic responsibilities, but the likely effect will be to increase the already cumbersome and ineffective bureaucracy.

The Pitfalls

25. Nationalism and regionalism are the two forces most capable of tearing Yugoslavia apart in a troubled succession. They are not, however, likely to erupt in any major way just because Tito leaves the scene. His heirs will inherit a legacy of pragmatic policies in managing divergencies that, if fairly and wisely applied, could do much to keep the country united in its diversity.

26. Three ethnic-communal problems bear close watching as potential bellwethers for a successful transition. The age-old hostility between the Serbs and their foremost rivals, the Croats, Muslims, and Albanians, is currently under a tight rein, but continuing regime nervousness regarding any hint of trouble bears witness to the explosive potentials involved. A second basic problem is the north-south development issue—particularly as it unwinds in Kosovo, where Albanian impatience with broken promises is sharp, and in Croatia, which is most vocal in objecting to federal taxes for developing the south. The last issue—potentially the most difficult to resolve—will be the regime's ability to contain rivalries during what promises to be a period of slower economic growth and tests of the peoples' willingness to share the burden of austerity.

27. The problem in managing these issues is that they are tightly interconnected and cannot be treated in isolation. An eruption in Kosovo, for example, even though it might have economic reasons, poses the threat of stirring up Serb nationalists at the expense of the Albanians. And aggressiveness by Serbs in the federation inevitably ignites Croats to similar reactions. Belgrade's quandary would be to choose between a course of encouraging compromises—thereby inviting tests of its resolve from other quarters—or of suppressing legitimate grievances and creating a pressure cooker effect in internal politics.

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28. The latter choice seems the more likely if only because of the current leadership's predisposition toward following Tito's example in suppressing the 1971 Croat crisis. The military and police establishments are likely to press such "solutions." In addition, the regime has nearly pathological fears about the ability of emigres abroad to infiltrate any grass-roots movement to the detriment of control by the party in Belgrade. These factors incline Belgrade toward suppressive overreactions.

29. There are, however, party leaders—most prominently exemplified in Presidium Secretary Stane Dolanc—who appear to believe that the regime should anticipate such eruptions of disorder and deal with them before flashpoint. The influence of such individuals in softening leadership reactions to given incidents is limited, however.

The Muslims

30. The recent reawakening of Islam as an international force has resensitized Belgrade's policy toward Yugoslavia's reported 4 million Sunni Muslims. The events of 1974, which saw a rapid increase in the influence of Arab oil-producing nations, however, had

already forced home the message that it was prudent to show concern for the Muslims.

31. Yugoslav Muslims live in two separate communities: in Bosnia-Herzegovina, where Muslims of Slavic heritage represent 40 percent of the local population, and in the non-Slavic, Albanian-inhabited areas of Kosovo and Macedonia. The split in effect results from geographic separation and racial differences. Since the Yugoslav regime long ago abandoned the idea of eradicating religious beliefs and has shown remarkable tolerance for religious activities short of political organization, Belgrade now has few serious problems with any of its religious communities.

32. The Muslim Slavs of Bosnia-Herzegovina were officially recognized as a nation equal to Serbs and Croats only in 1971. In so doing, the Tito regime hoped to deflect, once and for all, an ancient rivalry between the Croats and Serbs over which group speaks for the Muslim Slavs. The Muslim Slavs have learned to their regret that immersion in the dispute invited bloodshed, and they have demonstrated an aversion for both Serb and Croat nationalist programs. In their Islamic ties, the Muslim Slavs have shown a more active interest in the Islamic communities outside of Yugoslavia than they have in their cobelievers in Kosovo.

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ANNEX D

THE YUGOSLAV MILITARY

1. The traditions and continuing role in society of the military—ground, air, and naval forces collectively called the Yugoslav Peoples Army (YPA)—make it more akin to military establishments in the Third World and China than to those in neighboring Warsaw Pact states. From its inception in World War II, the YPA was simultaneously a military and political force. The high command and the party hierarchy were identical, and revolutionary ideals mixed with the heady patriotism of the Liberation War in providing the formative experience for most of the current military elite. The Yugoslav military thus retains political influence that outstrips that of either its Warsaw Pact or West European counterparts.

The Army's Role in Politics

2. The military has a reputation as the most powerful cohesive force in the country. It has always rallied behind Tito in times of foreign threats and internal disorder. Tito has in turn allotted the military a role as the ultimate protector of the achievements of the revolution, and the military elite has been incorporated into leading civilian/political positions to an unprecedented extent in recent years. The General Secretary of the State Presidency, Air Force General Ivan Dolnicar, is also a Deputy Defense Minister. The Minister of Interior and the Chief Federal Prosecutor are army generals, and Defense Minister Nikola Ljubic is one of 24 members of the federal party's ruling Presidium. An unprecedented 14 percent of the current Central Committee membership is from the military establishment, as occupants of several key command and staff positions were allotted Central Committee seats at the last party congress. Over 90 percent of the officer corps are party members.

3. The YPA's behind-the-scenes influence is even more substantial. It stems from an unofficial overview role in the internal security network—through the YPA's much-feared counterintelligence arm—and from the support of a million organized veterans and

reserve officers throughout the country. Moreover, the YPA has responsibility for Tito's personal security and medical care, and would therefore be a central institution in a transition period with Tito alive but too impaired to fulfill his functions.

4. Military loyalty to Tito has always been firm, but loyalty to his successors will be more conditional. Should the post-Tito leadership be seriously weakened by internal rivalries and disagreements that endanger national unity and independence, the Army is likely to become an even more forceful political actor. While a potential challenge to party prerogatives, increased YPA involvement in politics might not be at the expense of the party's political supremacy, because the YPA would tend to favor centralized controls and increased discretionary authority for the party. The impact of such a military intervention, however, could have complications. A more authoritarian regimen could disrupt the decentralized and consensus-seeking style of the present system. Violations of dissidents' human rights would be far more common. Imposition of such controls would appeal to the Soviets and pose difficulties in relations with the West but would not in itself signify a weakening of Yugoslav determination to remain independent of Moscow.

5. The Army's role in managing a crisis would probably be a stabilizing one over the short term, but there are reasons to question whether the YPA could itself wield the reins of power for any protracted period of time without serious problems. Many of the non-Serb minorities regard the Army as an institution antipathetic to their special interests. Moreover, the cohesiveness of the military without Tito as an anchor point for its loyalty is yet to be proven. Past factional behavior by a minority of generals and certain veterans groups are evidence of potential fissures which could deepen over both policy issues and ethnic rivalries. Moreover, a proposal to use armed force against ethnic nationalists in a crisis would be a severe test of the unity and discipline of the YPA.

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The Military Elite

6. Hard information on the political aspirations and intentions of the military hierarchy is sparse, as the YPA is highly effective in keeping its internal business secret. A study [redacted] in 1977 of the Yugoslav military elite analyzed [redacted] key staff officers and commanders. This study of changes in the elite from 1966 to 1975 affords the following brief overview of important characteristics and trends in the senior officers corps:

- **Age.** Since 1966, the military elite has aged nearly as much as the intervening number of calendar years. The median age of the known 1975 elite was 55; in contrast, the median age of the 1966 elite was 47.5. Because of this low influx of new blood, a massive rejuvenation of the high command will have to be undertaken before the mid-1980s, when the legal retirement age will pass for the vast majority of the elite.
- **Party Membership.** Communist Party membership is a prerequisite for advancement within the military establishment. The present military elite contains significantly fewer prewar “international Communists” than the 1966 elite. About 85 percent of the present military elite joined the party during World War II, and almost all of these in 1941 and 1942; the remaining 15 percent were prewar party members. Thirty percent of the 1966 elite were prewar party members, while about 70 percent joined the party during World War II, principally at the outset of the war.
- **National and Regional Affinity.** The major Yugoslav national groups are represented in the current military elite in approximately the same proportion as in the Yugoslav population as a whole, as follows:

Nationality	Percent of Elite		Percent of Population
	1975	1966	
Serb	37	46	39.7
Croat	26	25	22.1
Slav Muslim	7	5	8.4
Slovene	9	7	8.2
Albanian	1	0	6.4
Macedonian	7	2	5.8
Montenegrin	13	16	2.5
Hungarian	0	0	2.3
Other	1	1	4.6

The Serbian proportion of the 1975 elite has declined to a level slightly short of its 40-percent share in the population as a whole; in 1966 Serbs were slightly overrepresented. Croats remain slightly overrepresented, and Montenegrins remain strongly overrepresented. The Slav Muslim national representation in the military elite has increased somewhat since 1966 and now approximates the Slav Muslims' proportion of the total population. There has been a striking increase in Macedonian representation in the military elite, from 2 percent in 1966 to 7 percent in 1975—a level slightly higher than the Macedonians' share in the population. Slovenes remain represented in the military elite at a level approximating their proportion of the total population. Albanians and Hungarians remain grossly underrepresented. Serbs from regions of Yugoslavia other than Serbia proper continue to play a disproportionately large role in the military elite, although their relative numbers have declined since 1966. (All the national groups other than Serbs and Montenegrins are much less well represented in the total officer corps than in the military elite. The percentage of Croats and Slovenes in the officer corps has declined over the postwar period, while the percentage share of other national groups has risen. Virtually nothing is known about the views of middle-level and junior officers and NCOs. Reports from emigres, however, suggest that interethnic rivalry is a significant problem in the lower ranks.)

Popular Attitudes Toward the Military

7. We have no accurate data on popular perceptions of the Yugoslav military. Our general impression is that the YPA is widely respected as the nation's first line of defense against foreign aggression. As a political institution, however, the Army is probably distrusted by nationalists in non-Serb ethnic groups and by political dissidents who see the military as an institution basically opposed to reforms.

8. Serbs and Montenegrins tend to have a proprietary attitude toward the military establishment, which they traditionally have seen as the main guarantor of their influence. Representatives of these nationalities predominated in the postwar military hierarchy and still have disproportionate numbers in the lower ranks of the professional military. In recent times, quotas for promotion of other ethnic groups have lessened the Serb-Montenegrin dominance of the mili-

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tary elite, presumably creating some diminution of this proprietary attitude.

9. For the other ethnic minorities, the Army has the historic image of an institution used by Belgrade to stifle nationalistic fervor. The Croats and Albanians, in particular, hold old grudges against the Serb-dominated Army's use of harsh measures to establish the Communist regime after the war. More recently, the Croat nationalists of 1971 remember well that Tito threatened to use the Army to crush their movement. He actually deployed military units in some key sectors of the Croat capital. Many dissident Croats tend emotionally and inaccurately to ascribe pro-Soviet leanings to the YPA. The Croats at large, however, presumably are somewhat mollified by lower numbers of Serbs and Montenegrins in the high command.

10. The military's prestige has periodically soared in all quarters of the population at times when the USSR seemed most threatening. The 1968 Soviet-led invasion of Czechoslovakia was the latest occasion for a massive outpouring of such patriotic feeling.

Soviet Influence

11. While Belgrade's defense strategy is theoretically directed against military threats from any of its neighbors or either of the great powers, senior YPA officers have recently been frank in declaring the USSR to be the primary military threat at this time. Although according to the Yugoslavs, the country produces 80 percent of its military equipment, the Soviets do have a limited degree of leverage as the primary supplier of Yugoslavia's more modern armaments. We doubt, however, that Moscow sees this advantage as critical because there is no discernible pattern of Yugoslav military leanings toward appeasement of the USSR.

12. The YPA's patriotism and pride in its special role in Yugoslavia are likely to persist in the post-Tito era. While hundreds of Yugoslavs (the precise number is unknown) have trained in the USSR in the last decade and Moscow has made concerted subversive efforts toward them, we doubt that Soviet inroads into the Yugoslav military are significant. Indeed, there are indications that the number of Yugoslav military personnel training in the USSR has dropped in recent years. Moreover, the YPA's continuing rigorous security controls work effectively against such tactics. Occasional forced retirements of senior officers have reportedly occurred on the mere suspicion of diver-

gent political views which might prove useful to the Soviets. The last of several major internal reviews of the officer corps reportedly occurred in 1975 and 1976. Western experience in contacts with the YPA (though less extensive in the 1970s than the USSR's) tends to bolster the view that YPA contacts with foreign military establishments have not been allowed to undermine the military's loyalty.

Combat Capabilities

13. Yugoslavia's Nationwide Defense System, created following the Soviet invasion of Czechoslovakia, attempts to provide the most effective deterrent that a small state of modest means can manage. For its credibility as a deterrent, it relies on the training and preparation of a substantial portion of the citizenry for protracted guerrilla warfare against an invader. The defensive capabilities of the quarter-million-man standing ground, air, and naval forces are expected to be magnified in the eyes of an invader by the mobilization of the massive 3-million-man citizens army—the Territorial Defense Force (TDF)—and a civil defense force of more than 2 million.

14. The main function of the regular forces in an invasion is to meet an invader at the border, fight a war of attrition, and gain time for full mobilization. For political reasons the regime often chooses to affirm a policy of not ceding an inch of Yugoslav territory to a foreign occupying force, but the realities of geography favor multidivisional penetrations across the Hungarian Plain to Belgrade, from southeastern Hungary to the Italian border, and from Bulgaria. The YPA thus plans eventually to retire to the mountains to fight a guerrilla war. Preparations toward that goal include the construction of hangars built into mountainsides in nearly inaccessible terrain, and prior location of arms deposits and arms factories in similar areas.

15. Yugoslavia is mainly preoccupied with national defense problems. Federal, republic, and local laws and regulations cover the mobilization of every possible resource. Conferences are held to discuss all aspects of life under wartime conditions, and extensive efforts are made to prepare citizens for this eventuality. Articles on aspects of national defense tactics and preparation appear regularly in popular journals.

16. All of the Yugoslav forces—regular, territorial, and civil defense—are systematically trained. The Yugoslavs generally are far ahead of any other East European country in the continual exercise and review

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of their societywide mobilization procedures, combat tactics, and the command and control organization. Young people receive premilitary training from elementary school through college. Joint YPA-TDF and civil defense operations are rehearsed in major exercises, and mobilization procedures are frequently exercised in large and small callups. On the other hand, there is no doubt that the government fails to achieve the goal of universal military training it has set, and there is evidence that the effectiveness of the training varies widely. Junior officers' training is at a high level while joint YPA-TDF exercises betray substantial shortcomings. Problems with the national defense organization and procedures are uncovered during exercises and discussed openly in critiques.

17. There are, moreover, some notable weaknesses in the Yugoslav armed forces. In spite of an ambitious modernization program, the YPA continues to be short of antitank and air defense armaments. Its inventory contains a wide variety of weapon types—most of which are outdated. The varied foreign origins of the weapons pose serious logistic problems. An intensive effort is under way to improve domestic arms production capabilities, expand arms exports, and diversify foreign sources of modern arms. Yugoslavia is currently seeking some US and NATO arms.

18. Other problems which may reduce the effectiveness of the Yugoslav defense strategy are limited transport resources, a decentralized command and control system that could slow operations during an initial phase of intense conventional warfare, and the generally uneven development of TDF units throughout the country. Financial constraints underlie most of these weak areas.

19. Should war occur, the Nationwide Defense System could not successfully defeat a large-scale invasion by the Soviet Army without substantial outside support. Nevertheless, the risk of a protracted conflict against a well-organized nationwide Yugoslav resistance would greatly affect the cost calculations of a potential adversary, particularly as a prolonged conflict would increase the chances of external support for Yugoslav partisans.

20. Although the Yugoslav deterrent is highly dependent on massive civilian augmentation of the regular armed forces, the initial implementation of this national defense scheme was far from universally accepted. The regular military at first was highly skeptical about lessening its defense responsibilities—and budget—by allotting a serious combat role to the

Territorial Defense Forces. Defense Minister Gosnjak and several other senior generals were replaced in 1967, in part for their opposition to the citizen-in-arms concept then under study. Some reservations have persisted and the regular military has been mollified by receiving increasing operational and training control over TDF forces.

21. An unpredictable aspect of this system is its untested reliability in a situation of rapidly deteriorating domestic order. The local populace, if armed and organized, might provide the basis for mutually hostile rebel governments in the separate regions. The Army and the secret police, however, are aware of this potential and retain immediate control over local arms depots. They also closely examine the political credentials of the key civilians involved in each local TDF command.

22. A vital, unpredictable factor in the effectiveness of the defense plans involves the elusive element of national will. Yugoslavia has been plagued throughout its brief history by conflict among the various national groups that make up its population. Should these groups dissolve into hostile factions, working at cross-purposes, the Yugoslav defense effort could be seriously compromised. However, an external threat from the USSR might well lead to effective unification of these competing groups in defense of common interests.

Financing of National Defense

23. Belgrade generally attempts to provide a large and capable military establishment as inexpensively as possible in order to accommodate high-priority requirements for economic development. This effort is made possible by a reliance on a relatively inexpensive pool of manpower. YPA personnel costs are low in comparison with Western armies, and the TDF costs even less to maintain. Despite these advantages, however, the financial pressures on both the YPA and the TDF are great.

24. Defense expenditures occur at all levels—federal, republic, and local. At the federal level, defense expenditures were expected to be about the equivalent of \$2.9 billion in 1979, representing some 53 percent of total federal expenditures but estimated to be only 6.2 percent of projected 1976 gross national product. (Because of its decentralization system, Yugoslavia's federal budget covers very few of the areas normally funded by central governments. Most social welfare spending, for example, has been transferred to the

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republic and provincial governments.) A revised social plan passed in July 1976 projects only a slight increase in the defense share of the GNP through 1981. There are recurrent complaints about budget strictures—which force economies in military spending in order to pay social benefits—and weapons modernization is probably slower than most generals would like. Major arms purchases of expensive Western military technology would probably strain the YPA budget beyond its current and planned limits. For these reasons, the USSR is likely to remain the primary source of imported arms.

25. Funding of the TDF, largely accomplished at the republic and lower levels, is subject to equal or

even greater constraints. Local communities and organizations not only must finance TDF equipment, training, and administrative expenses, but factories and other enterprises must pay their personnel for time spent in national defense activities. Defense spending is far from uniform across the country. Rich communities and enterprises spend the most, while the poorest communities are said to be constantly in arrears in their obligations. Some republics are assisting jurisdictions in underdeveloped areas, and one of the major purposes of the new republic national defense laws currently being considered is to regulate the funding of the TDF more equitably and to require a minimum level of defense expenditure.

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ANNEX E

FOREIGN POLICY

1. The key foreign policy factor in post-Tito Yugoslavia will be relations with the USSR. Although three decades—and numerous efforts to complete a workable reconciliation—have passed since Tito's historic break with Stalin, Yugoslav suspicions of Soviet intentions remain high and will peak again when Tito dies.

Relations With Moscow

2. Though the Titoist formula is firm on avoiding critical entanglements and confrontations with the Soviets, its implementation has depended greatly on Tito's readings of the international climate and on his personal view of the sweep of history. In essence, Tito intuitively mastered the problem of dealing with the overwhelmingly stronger Soviets. His methods will not transfer easily to a new team, which will have to work out its problems by consensus.

3. Tito's policy toward Moscow has had many conflicting currents. Although his international reputation is shaped largely by the break with Stalin in 1948, his long-run success depended to some degree on periodic flexible accommodations. On occasion, Tito evaded conflicts with the Soviets' power by bending to Kremlin interests in ways that left Yugoslav sovereignty flawed in image but in essence unimpaired. The best example of such a concession was an agreement in early 1974 to Soviet requests for access to Adriatic naval repair facilities that were much needed to help continue the presence of Soviet submarines in the Mediterranean. Tito, however, signaled his intention to prevent an expansion of the Soviet presence by passing legal restrictions that formally ruled out the possibility for further concessions and opened the naval repair facilities to other countries. Moscow subsequently failed to expand on its "toehold" despite a half decade of concerted efforts, including personal requests by Brezhnev himself.

4. A more salient aspect of Tito's policy has been to oppose the Soviets actively over selective foreign policy issues, with a view toward helping to contain

the expansion of Soviet influence in the Third World while encouraging resistance to Soviet authority closer to home. To this end, Tito has supported Romania's efforts to assert greater foreign policy independence of the USSR, condemned the Soviet-led invasion of Czechoslovakia in 1968, vociferously advanced the Eurocommunist line, and openly criticized Soviet meddling in Africa and Asia.

5. The most consistent of Tito's efforts have been directed at convincing the Soviets of the unacceptable consequences of applying raw power to force Yugoslavia into the Soviet camp. Belgrade's widely publicized plans for a protracted guerrilla war are an important element in these deterrent tactics. Also useful has been Tito's occasional "swings" toward the West, which are intended in part to demonstrate Yugoslav options in the face of unacceptable Soviet demands.

6. There is ample reason to believe that such Yugoslav wariness is justified. The Soviets regularly probe for increased influence in Yugoslavia. During the Tito-Brezhnev talks in Belgrade in November 1976, for example, the Yugoslavs say Brezhnev requested naval bases in the Yugoslav Adriatic, blanket rights to overfly Yugoslav territory, and closer political and economic cooperation with the East, including the creation of a Soviet-Yugoslav Friendship Society. Tito rebuffed these overtures as unacceptable, but Brezhnev reportedly returned to the same themes during Tito's official visit to Moscow in August 1977 and received another negative response from Tito.

7. The persistence of such private Soviet overtures is not evident in the official record of Soviet-Yugoslav relations, largely because Moscow tries to maintain a public posture of friendliness toward Yugoslavia that is disarming and more consistent with its interests in East-West detente. The Kremlin usually responds to Yugoslav-inspired leaks about Soviet pressures with protestations of injured innocence, and more private pressure in the form of allegations about anti-Soviet leanings of the Yugoslavs. Soviet toleration, however,

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has limits; recent polemical attacks in Moscow's media betray a special sensitivity over Tito's opposition to the Vietnamese effort to conquer Kampuchea with Soviet support.

8. Belgrade realizes that detente inhibits Soviet use of heavyhanded pressure and that these inhibitions would be weakened if the USSR decided to take a harder line in Europe. Given the uneven course of US-Soviet detente and Soviet readiness to meddle in remote regions of Africa and Asia, the Yugoslav leadership is increasingly nervous over the potential impact of forces that are beyond its power to affect.

9. There are other causes for Yugoslav concern about the future of bilateral relations with the USSR. Brezhnev, like Tito, cannot count on many more years of life. A simultaneous or near-simultaneous passing of the two leaders would complicate the achievement of an acceptable new relationship. Neither leadership is unanimously happy with the current state of relations. Although internal Yugoslav divisions on the issue are sharper, both Tito and Brezhnev were forced to muzzle doubting subordinates during their most recent efforts from 1971 to 1974 to create a durable working relationship. The Yugoslavs, moreover, privately feel that the successor leadership will be less moderate toward Yugoslavia than Brezhnev's leadership.

10. The importance of personal diplomacy between Tito and Brezhnev in keeping bilateral relations from declining beyond repair was exemplified again in their May 1979 talks in Moscow. Events during the months before these talks had contributed to a rapidly deteriorating relationship: Yugoslav disagreement with Soviet policies in Asia and Africa and toward the nonaligned movement, hot polemics with Bulgaria on the Macedonia issue, Yugoslavia's concern over Warsaw Pact exercises in its vicinity, and Soviet criticisms of Tito's China policy. Tito and Brezhnev made no progress toward resolving the basic differences, but they did agree to tone down public polemics and reportedly made progress on coordination of new five-year trade proposals.

11. Sharply contrasting motives may well come into play in casting the new Yugoslav leadership's basic policy toward the USSR. On the one hand, a majority of Yugoslavs may well prefer an openly vigilant posture complete with denunciations of Soviet ill intentions and overdramatizations of Soviet pressures. Proponents of this stance probably calculate that Western countries would tend to respond more sympathetically to Yugoslav aid requests under such circum-

stances and that the population might be diverted from internal divisions under a dramatized threat from the East. On the other hand, open hostility would loose speculation of a drift Westward and thereby anger Moscow and risk stimulating greater Soviet pressure.

12. A Yugoslav leadership assessment of diminished will or ability in the West to support the post-Tito regime might also influence Belgrade to seek a new relationship with the USSR. Such a major constriction on the Yugoslavs' maneuvering room in foreign policy might lead to more emphasis on international issues where there is agreement or ideological similarity of Soviet and Yugoslav goals. In such a case, we might also see Yugoslav willingness to make token bilateral concessions to Soviet interests—including, for example, a modest further relaxation of restrictions on Soviet naval repairs in Yugoslav ports or the granting of somewhat easier overflight arrangements.

External Sources of Support

13. Yugoslavia, as a nonaligned state surrounded mainly by members of military blocs, forswears treaty commitments that would limit its freedom of action and provide grounds for foreign threats to its security. In the event of a serious crisis, Belgrade intends to rely on good bilateral relations with those countries whose sympathy potentially could be translated into tangible aid or at least solid political support.

14. In recent years, Tito has significantly adjusted the country's "balance" in international affairs by "tilting" toward countries likely to help Yugoslavia if the Soviets meddle in a troubled succession. The policies he will probably leave behind appear realistically balanced to serve a reasonably united leadership in flexibly maintaining the country's independence.

15. *China.* The most dramatic change in Yugoslavia's foreign relations in recent years was the re-opening of across-the-board relations with China. This effort, marked by Tito's visit to China in 1977 and Chairman Hua's return visit last August, strained relations with Moscow for a time but added a new asset to Yugoslav foreign policy. Though no Yugoslav leaders are likely to expect China to provide a decisive counter to any Soviet pressures, Belgrade believes that its tie to Beijing—when added to its corollary in Romania—will give the Kremlin a sizable factor to weigh in reviewing its options.

16. Like Romania's Ceausescu, Tito calculates that he can orchestrate the Chinese tie to maximize its

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deterrent impact on the USSR without provoking the Soviet leadership to alter its relationship with Belgrade fundamentally. The Yugoslavs, however, are wary of misplaying this card and of potential Soviet over-reactions, and Belgrade will be cautious now that the Kremlin is clearly warning that its tolerance is nearing its limits. Belgrade, moreover, although publicly restrained, was somewhat disturbed by China's invasion of Vietnam and the additional example it set (following the much more disturbing Vietnamese invasion of Kampuchea) of armed intervention by a Communist state against a weaker Communist neighbor.

17. *The Nonaligned.* Tito's heirs will doubtlessly try to capitalize on the prestigious position he earned as a nonaligned activist. Yugoslavia is deeply committed to nonaligned activity in a host of international forums and is especially concentrating on the United Nations, which Tito sees as the primary focus for attempts by the Third World to protect its interests against the great powers. Tito has used the basic tactic of following the consensus of the nonaligned movement (NAM), but striving vigorously to influence the consensus decisions while they are still in the formative stage. He has been most successful when the interests of other major founding nations (India and Egypt, most importantly) dovetail with Yugoslavia's. Splits in the Arab, Asian, and African contingent of the NAM, however, have in recent years created a complex array of differing opinions which threaten the ability of the NAM's charter members to steer the movement.

18. Tito's alternative tack has been to play to those countries with the dominant influence in each regional component of the NAM, while proselytizing the non-aligned dogma of the founders. He also presses common causes of great-power disarmament and the creation of a new international economic order as the core issues holding the NAM together. He has also played the role of honest broker in regional disputes in order to enhance his image as an impartial spokesman for the best interests of the movement.

19. These efforts have entailed costs. Support of the national revolutions in Africa—including permission for Soviet resupply overflights to Angola and Algeria—has embroiled Yugoslavia in issues that divide the nonaligned movement and erode Western sympathy toward Yugoslavia. To date, Tito has wisely refrained from sending Yugoslav military "advisers" to hotspots that are already more explosive because of the Cuban and East German presence. However, training programs in Yugoslavia for Palestinians, Libyans, and South African liberation groups and sales of Yugoslav

arms amount to a substantial involvement in world crisis spots that could have future political repercussions in the West.

20. The nonaligned commitment also has some economic costs for Yugoslavia. For reasons of solidarity, Tito has steadfastly supported the right of members of the Organization of Petroleum Exporting Countries to use petroleum as a weapon, even though Yugoslavia itself has been deeply hurt by the resulting drain of hard currency to OPEC countries. Moreover, the managers of the domestic economy are regularly tongue-lashed for their trade surpluses with NAM allies which bring into question Yugoslavia's ideological commitment against economic neocolonialism. Though Yugoslavia, starting in the mid-1960s, has extended over \$1 billion in credits to less developed countries (principally in the Middle East) the "aid" has covered Yugoslav exports of ships, industrial equipment, and construction services performed by about 13,000 Yugoslav workers overseas. Another \$2 billion of such exports have been provided on commercial terms. Such transactions have financed most of Yugoslavia's oil imports from Iraq, Libya and Nigeria, about 30 percent of its total oil imports.

21. Belgrade is also wary of Cuban-sponsored pro-Soviet tendencies in the nonaligned movement which could isolate Yugoslavia from its old friends in the revolutionary wing of the movement. Because Tito has modified his earlier tendency to adhere fairly uncritically to the radicals' consensus, Yugoslavia after Tito will be less likely to drift into passive acceptance of Soviet efforts to manipulate the NAM. Tito's recent outspokenness in opposing such trends may thus prove to be an important precedent his successors can use in redefining their nonaligned commitments as needed.

22. Yugoslavia's influence in nonaligned councils derives in good measure from the benefits of Tito's personal prestige. A comparatively wealthy European country out of place in the company of the poorer non-European countries which dominate the NAM, Yugoslavia has little natural kinship with the rest of the Third World. Moreover, other NAM leaders—as Castro is already doing—are likely to claim their share of Tito's role once he is gone. The long-term prospects thus point toward a diminished Yugoslav role within the NAM and preoccupation with regional European and domestic problems after Tito. A lower profile in nonaligned councils coinciding with an increase in Soviet influence on the NAM would rapidly make Tito's successors even more selective toward the NAM's international activities.

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23. We doubt, however, that this process, if it evolves, will find the Yugoslavs as pliable clients of the Western powers. Rather, we would expect them to experiment with new—possibly European neutral—forums for their independent foreign policy.

24. *Neighboring States.* Contained within arbitrary and historically disputed borders, Yugoslavia is perennially anxious about a revival of territorial claims by several of its neighbors. These problems are serious because Belgrade has surprisingly few assets in terms of long-term friendly relationships to assure cooperation from its immediate neighbors in time of need.

25. This is particularly true along the southern borders, where Bulgaria, a Soviet ally, and the hostile Albanian regime could deliberately compound Yugoslav insecurity by advancing dormant claims. Tito has tried to condition the Yugoslavs to the threat from Bulgaria by keeping the age-old Macedonian dispute near center stage. At times, however, the Soviets have also played on Yugoslav nervousness over Macedonia. Brezhnev's visit to Sofia from 13 to 17 January, for example, coincided with heightened Yugoslav-Soviet differences over the Kampuchea crisis and Bulgarian agitation on the Macedonian issue.

26. Albania promises to be a constant thorn in Yugoslavia's side because occasional outbreaks of greater Albanian nationalism among the Albanians in Kosovo provide Tirane reason to hope for territorial revision. Belgrade knows that Albania alone has no resources for achieving such an end, but Yugoslav uncertainty centers on the off chance that Moscow—possibly in the unwinding of an Albanian succession crisis—will supplant China as Albania's patron. Though it would be sorely tempted to intervene, Yugoslavia has had no appreciable base of support in Albania. In any sequence of events in Tirane that momentarily favors the Soviets, Belgrade's credible options would be limited to military threats or economic blockades, moves that might well prove counterproductive.

27. Belgrade has undertaken efforts to create a strong relationship—including frequent military exchanges—with Romania, a self-assertive independent-minded Warsaw Pact member that refuses free transit of Soviet troops and fights Soviet attempts to shape Warsaw Pact policies to Soviet policy interests. The Yugoslavs have active but limited bilateral military cooperation with Romania. Although there has been some exploration of joint arms production, the results are clearly meager, and the primary motives on both

sides for continuing cooperation are plainly political. Evidence of continuing high-level contacts strongly suggests that the two Balkan mavericks have discussed contingencies against Soviet military moves in their region though there is no evidence of active and viable joint planning in the regard. Should the Soviets exert strong pressure on Romania for full conformity with Soviet foreign policy, Yugoslavia would have little choice but to view this action as an indirect attempt to curb Yugoslavia freedom of maneuver.

28. Despite a strong network of common interests and frequent meetings between the two leaders, Tito and Romania's Ceausescu have not always agreed on tactical responses to Soviet initiatives. Disagreements stemmed in large part from the natural differences in priority for nonaligned Yugoslavia and for Romania, which has both Warsaw Pact commitments and a common border with the USSR. However, there was also a strong personality clash between the venerable Tito and the younger Ceausescu, who is still establishing his own credentials as a world statesman. Romania's insistence on retaining its diplomatic ties to Israel is only one of many irritants in the relationship. With Tito's passing, the Yugoslav leadership will consist of men more nearly Ceausescu's equal in age and personal roles in the international area. Chances should improve for differences to be more readily set aside in the interest of substantially closer cooperation on common interests.

29. Belgrade also has recently tried to woo Greece. The Yugoslavs have frequently expressed desires that Athens stay in NATO—thus minimizing chances of Greek-Bulgarian-Albanian collusion with irredentism as its centerpiece.

30. To the north, Tito has tried to repair relations with Italy and Austria, which Belgrade views as potential, but not immediately active, irredentists. The settlement of the Trieste problem several years ago greatly eased Yugoslav anxieties and Yugoslav attention now centers on the lesser problem of embryonic attempts by rightist forces in northern Italy to seek revision of the Trieste agreement. Similarly, a continuing quarrel with Vienna over Austrian treatment of Carinthian Slovenes has overtones similar to but much less threatening than the Bulgarian stand on Macedonia. Tito keeps these northern border issues quietly alive, in part to counter a prevalent view among many Yugoslavs that they have nothing to fear from the West. Tito's successors, however, will be faced with a compelling need for improved relations with the country's Western neighbors, which should incline

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them toward muting their dramatizations of every small issue with Austria and Italy.

31. As with Greece, Yugoslavia wants Italy to remain a full member of NATO because of the stabilizing impact of such ties on the region. The favorable stance taken by the Italian Communist Party (PCI) on Italy's NATO commitment is probably a decisive element in Yugoslav vocal support for the PCI's "historic compromise." The Yugoslavs also support PCI programs that tend to undermine Soviet claims to tutelage of nonruling parties. The Yugoslav party also maintains close ties with the Italian Communists as a way of providing some insurance that it will obtain influence with Rome should the Communists ever manage an electoral victory. A major predicament for post-Tito Yugoslavia might emerge, however, in the unlikely, but possible, event that Italian Communists began agitating for a diminished Italian role in NATO. If this were to happen, Belgrade would counsel caution, and would hope that the Western alliance would emerge from such a crisis without facing a radically altered balance of power in Europe.

32. In the event of such a change—and a resultant potential increase in Soviet pressures—the Yugoslavs might explore regional security arrangements (akin to the moribund Balkan Pact of 1954) with neighbors able and willing to cooperate. Yugoslav pursuit of Balkan regional cooperation—excluding Albania and blocked by a reluctant Bulgaria—over the past few years may have some usefulness in broaching security cooperation if the need arises.

33. *The Western Powers.* In anticipation of the succession, Tito has opened most of the doors to the West that he wanted left ajar. In critical areas—like arms purchases—he has pursued negotiations even though that action irked the Kremlin. In seeking a more stable export market in the European Economic Community, he has similarly pushed the EC for one-sided concessions on the basis of Western political interests in Yugoslav economic stability. In political contacts, he has conducted very active informal dialogues with Western socialist leaders and even with some conservative parties as a hedge against electoral changes in the political complexion of the West. Reluctantly, Tito also improved the regime's record on human rights with moves like the unusually large amnesty of political prisoners in 1977.

34. Tito's Westward tilt was curtailed, however, in important ways. On highly sensitive cooperation on military arms deals, he delayed consummation of

specific deals that threatened to antagonize the Soviets. He also firmly opposed introduction of Western democratic concepts into the Yugoslav model of Communism—even to the point of disavowing the validity of Eurocommunist innovations for Yugoslavia. In hopes of more firmly implanting these restraints, Tito recently made Milos Minic—a like-minded conservative—the Presidium's senior foreign policy expert.

35. Thus, Yugoslav attitudes under Tito toward the major Western powers have been ambivalent. They recognize the need for Western support against the Soviets but sense countervailing danger in Western influence, as a threat to Communist control in Yugoslavia and as a goad to the Soviet Union. In the post-Tito era, the weaker successor regime will be inclined to buoy morale with active contacts in the West. It will, nonetheless, probably try to guard against ideological compromises that would weaken the regime at home and trouble its relations with Moscow.

36. Belgrade's relations with the West European powers are uneven in terms of relative significance. West German relations are, and promise to remain, most significant to Yugoslavia. Close political cooperation is evident in a constant stream of visits by top-level policymakers. The party dialogue between the German Social Democrats and the Yugoslav Communists, for example, is one of the Yugoslav party's closest relationships in the West. West Germany's economic impact is also immense. Bilateral trade in 1977 was at \$2 billion, with Yugoslav exports a mere quarter of the total. In addition, more than 400,000 Yugoslavs are temporarily employed in West Germany in a mutually beneficial arrangement that is particularly necessary in alleviating Yugoslavia's domestic unemployment problems and balancing Belgrade's foreign currency accounts. Settlement of World War II claims in 1975 removed one of the main long-term bilateral issues from the agenda, but serious misunderstandings over issues like terrorist activities and, to a lesser degree, trade imbalances occasionally mar the otherwise close relationship.

37. France has a smaller impact in Yugoslav foreign relations but one that the Yugoslavs would like to expand. Historical ties are strong, as the Yugoslavs remember France's arms support in World War I and its close ties to interwar Yugoslavia. Paris's larger potential importance to Yugoslavia derives from Yugoslav awareness that any coordinated Western positions aimed at supporting Yugoslavia in a post-Tito

E-5

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crisis would be facilitated by affirmative French action. Tito hosted President Giscard D'Estaing in Yugoslavia in December 1976 and visited Paris the following October in hopes of expanding French-Yugoslav ties. The French arms industry is a magnet for the Yugoslavs, but cooperation to date is limited (the Yugoslavs do produce the Gazelle helicopter under French license). Bilateral trade in 1977 amounted to almost \$750 million, with a large imbalance in France's favor. Paris has been reluctant to agree to EC concessions that Belgrade needs to help balance its trade to the West.

38. Great Britain's influence in Yugoslavia similarly derives from Yugoslav appreciation of London's potential role in Western support in a crisis. As wartime allies, British and Yugoslav leaders have long experience in dealing with each other. In the 1970s, the Yugoslavs have probably had more consistent military dealings with the United Kingdom than with any other Western power. Bilateral trade in 1977 amounted to about \$1 billion. Tito has visited London twice in this decade on return trips from the United States—in 1971 and 1978—a pattern suggesting the Yugoslavs place more stress on London's Atlantic alliance than on its influence in Western Europe.

39. Overall, Western economic influence is dominant in Yugoslavia and promises to remain so. Continuing tough negotiations with EC over trade concessions, however, have driven home the message that the West's slow recovery from its recession reduces its ability to make politically motivated economic concessions. Post-Tito Belgrade may, all the same, press for its needs for substantial economic concessions. And the likely arguments—the need for morale props and the alternative of turning to the East—will be difficult for the West to ignore. In fact, anything less than a continuation of Tito-era trade and credit policies could cause popular loss of confidence and sharpened regional rivalries and could exacerbate differences within the leadership.

40. Yugoslavia stresses a willingness to go it alone against an invader, and knowledgeable Yugoslavs are skeptical about chances for a direct Western military response to a Soviet invasion. Western willingness to sell modern arms to Yugoslavia, however, lends credibility to the Yugoslavs' military deterrent strategy. The Tito regime has tried to raise the credibility of its deterrent at home by assuring its people that, if they stubbornly oppose an invasion, domestic pressures on foreign governments will result in arms supply. Belgrade also needs visible military contacts with the

West as a demonstration to Moscow of Yugoslavia's ability to diversify its foreign arms sources quickly if the Soviets cut off their arms shipments and spare parts supply. Tito's slowness in taking up Western offers, however, seems to stem from reservations about substantial, expensive arms deals that strain national resources and relations with the Soviets.

41. The emigre problem will be an ever-present complication in the new leadership's dealings with the West. Though the Yugoslavs have reportedly received assurances from Germany and Austria regarding controls of anti-Titoist emigres trying to return to Yugoslavia, hardline Yugoslavs would portray any breakdowns in these understandings that resulted in terrorist acts embarrassing to the new regime as Western-aided efforts to destabilize the situation. Moscow can be expected to maximize propaganda on emigre incidents embarrassing to the West.

42. *The United States.* While not as dramatic as his opening to China, Tito's recent efforts to improve US-Yugoslav relations are the real centerpiece in his efforts to rebalance the country's international assets before the succession. It was not easy to repair the damage to mutual understanding done by conflicting stands on the 1973 Middle East war and an ensuing radicalization of the nonaligned movement in which Yugoslavia took stands extremely detrimental to US interests. Efforts began as early as the fall of 1974—after a pro-Soviet underground was discovered at work inside Yugoslavia.

43. The early stages of the rapprochement were marred by Tito's wariness of US motives, which was reflected in his abrupt postponement of a deal for much-needed TOW antitank missiles in early 1976. At the same time, there was exasperation on the part of military men, like Defense Minister Ljubicic, over a perceived lack of US readiness to sell Yugoslavia state-of-the-art weaponry. Anti-Titoist emigre activities in the United States also fed the Yugoslav regime's paranoia about "hostile elements" in Washington.

44. Solid gains in improving the US-Yugoslav relationship, therefore, came only after the Carter administration took office. Since then, a web of cooperative relations has begun to emerge that includes serious discussions of advanced weaponry sales to Yugoslavia, occasional collaboration on international events of mutual concern, a softening of Yugoslavia's previous hard line on US human rights policy, and revived Yugoslav interest in expanded economic ties. Impor-

E-6

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tant differences, of course, continue to surface, but they now are generally subordinated to Yugoslavia's pragmatic interest in preparing for the post-Tito era.

45. US policy toward events in the post-Tito era, though unlikely to be directly effective in countering any internal threat to unity, still promises to be a major contributing factor to the maintenance of Yugoslav independence. Belgrade, for example, will expect Washington to use its diplomatic and political resources to dissuade Moscow from aggressive tactics toward the successor regime. Moreover, the Yugoslavs believe that the United States, through its special influence in Western Europe, is the only likely source of coordinated and coherent Western postures in a Soviet threat to the Yugoslav "gray area." US willingness to sell the new regime modern arms could be a

significant factor in shoring up Yugoslav morale. Similarly, the US example in Western economic policy toward post-Tito Yugoslavia will have a significant impact on the flow of Western credits necessary for the stable growth that could help ease the successors through minor political crises at home.

46. As important as these factors will be in Yugoslav long-term thinking, they probably will be muted in immediate policy maneuvers after Tito goes. Though the Yugoslavs will want visible US acceptance of the new regime and expressions of support for the status quo, such US gestures may be met with reserve—if not with intemperate reminders of Yugoslavia's mastery of its own fate. The new regime's anxiety to scotch speculation about a drift into the Western camp may be more publicly evident than its private gratitude.

E-7

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