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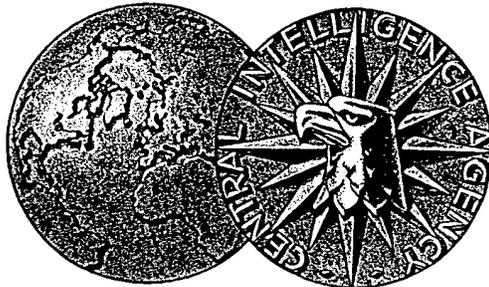
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THE YUGOSLAV DILEMMA

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THE YUGOSLAV DILEMMA

SUMMARY

Recent developments in the worsening quarrel between the Soviet bloc and Yugoslavia have highlighted the paradox which now confronts Tito. While the USSR is shown to be determined to deal with Tito's regime only on terms of the latter's complete submission, Tito can compromise only on a basis of political and economic equality. Soviet economic pressure has forced Tito to seek increased Western trade and has made him economically increasingly dependent on the "imperialistic" West; yet anything approaching a political rapprochement with the capitalist world might cause him to lose his principal domestic support, which emanates from the group of fanatical Marxists who make up the high command of the Yugoslav Communist Party. Moreover, any Yugoslav territorial compromises to its non-Communist neighbors would tend to alienate the nationalistically minded rank-and-file party members and sympathizers.

Publicly, as shown in Foreign Minister Kardelj's important policy announcement of 29 December 1948, the Yugoslav Government still supports the anti-Western Soviet line in foreign policy. It is evident, however, that as Tito's economic situation grows more desperate and his economic dependence on the West (particularly the US) intensifies, he may be forced to modify his hitherto vigorous anti-Western foreign policy.

Note: The intelligence organizations of the Departments of State, Navy, and the Air Force have concurred in this report; the Intelligence Division, Department of the Army, had no comment. The information herein is as of 4 February 1949.

THE YUGOSLAV DILEMMA

The increasingly sharp accusations recently exchanged between the USSR and Yugoslavia, as well as the virtual economic boycott by the Soviet Union of its estranged satellite, clearly indicate that the USSR-Yugoslav break has taken a definite turn for the worse. This turn of events highlights the paradoxical situation which now confronts Tito. Of the many measures instituted by the Kremlin against him, the orbit's growing economic blockade has proved the most effective, and, in his resulting desperate economic isolation, Tito must seek some alleviation of his mounting predicament in closer trade ties with the West. Tito must also realize, however, that the search for relief of his economic plight in the West may necessitate some moderation of a hitherto vigorous anti-Western foreign policy.

So long as such moderation represents only the well-known Communist tactical maneuvering, it would not endanger Tito's internal position. However, a marked deviation from Communist theory, for the sake of political rapprochement with the West, might deprive Tito of the support of his trusted lieutenants. Furthermore, any territorial concessions Tito might make to his non-Communist neighbors would weaken the support he is receiving from Yugoslav nationalists. Thus, Tito is faced with the problem of obtaining maximum trade concessions from the West, while at the same time making a minimum of political commitments in that quarter.

Tito has publicly admitted the serious effects on Yugoslav economy of the increasing economic boycott by the Soviet bloc. The Cominform's deliberate failure to provide him with the necessary industrial equipment, petroleum products, and technical assistance has forced a drastic revision of the Yugoslav Five-Year Plan to primary emphasis on heavy industry and housing. His choice of the latter for such priority is indicative of Tito's anxiety to gain the continued support of the Yugoslav workers and increase the Yugoslav industrial manpower potential by moving peasants into the cities. The 1949 Yugoslav budget in which military expenditures have received the largest proportionate increase (50 percent), to a total of \$500,000,000, further indicates Tito's concern over the security of his regime.

In addition, Tito has publicly accused the Soviet bloc of renegeing on the fulfillment of its trade agreements with Yugoslavia. Soviet trade with Yugoslavia, already curtailed, will be cut drastically in 1949 to an announced level of one-eighth that of the past year. Evidence is accumulating that the other members of the Soviet bloc are following the Kremlin's lead in restricting the orbit's 1948 estimated \$200,000,000 economic intercourse with Yugoslavia to a minimum. Effective economic blows already carried out against Tito by the Soviet bloc have been the stoppage of Yugoslav oil imports from Rumania, Hungary, and Albania; and, more recently, the curtailment of Polish coal and Czechoslovak heavy machinery.

In the face of this growing economic blockade, Tito is attempting to re-establish and expand commercial ties with the West. In the past six months, he has negotiated trade treaties with the United Kingdom, Switzerland, Belgium, Austria, the Netherlands,

India, western Germany, and Argentina. Treaties with Italy and Pakistan are in a process of negotiation. Tito has likewise made a \$15,000,000 offer, contingent upon an easing of US export controls, to exchange Yugoslav metals for US industrial equipment.

Meanwhile, the Kremlin concurrently with its increased pressure on Tito, is taking measures to prevent a spread of "national" Communism into the remainder of the Satellite empire. Because its system of control is based upon unquestioning obedience to Moscow dictates, the Kremlin's preoccupation with eliminating further sources of rebellion has resulted in an acceleration of plans to neutralize all satellite elements potentially hostile to the Soviet Union. The USSR, therefore, cannot risk the impact which a compromise with Tito on his terms, or indeed on any terms less than absolute subservience, would have on the relatively unstable Soviet empire.

Despite the conflict between Moscow-directed world Bolshevism and Yugoslav "national" Communism, the Tito regime has reaffirmed its ideological affiliation with the Soviet bloc in the stand against the West. In what is probably the most important Yugoslav foreign policy statement in recent years, Foreign Minister Kardelj on 29 December 1948 reiterated Yugoslav adherence to Soviet policy in dealing with the "imperialistic" West. Kardelj in effect indicated that the Kremlin-Tito rift was an internal Communist affair independent of the East-West struggle. In Yugoslavia's delicate position, however, such a reiteration of its international position is, in any event, necessary if only "for the record."

It is possible that the attempt to substitute a Western economic orientation for Tito's previous dependence on the Soviet bloc may in time force a gradual moderation of Yugoslavia's anti-Western foreign policy. There have been indications that the official Yugoslav policy line has been somewhat softened in the current negotiations with Italy. The possibility likewise exists that Yugoslav tactics might also be modified regarding the issues of Trieste, Carinthia, or aid to Markos—provided the economic gains accruing to Yugoslavia were sufficient, and especially if the USSR should no longer support Yugoslav foreign policy against the West.

The continuing rift is a source of irritation to the Kremlin, and reveals both the unwillingness and the inability of the Kremlin to eliminate it at this time. Despite the difficulties which the Tito defection presents in the development of economic integration and political control of the Soviet bloc, there remains little probability of an accommodation. Tito, realizing that recantation would spell his doom, in a New Year's Day message defiantly told the Cominform that only a compromise based on his complete political and economic independence was acceptable.

For the Kremlin, on the other hand, the price of a compromise with Tito is too high. The very concept of Soviet domination over its growing empire would be jeopardized. As a result, the struggle must continue and intensify. Economic necessity should force a continued gradual revision of Yugoslav policies, resulting in (1) continued deterioration of Soviet-Yugoslav relations, (2) a consequent attempt to shift Yugoslav economic orientation toward the West, and (3) increased probability of a modified Yugoslav policy line toward the West.