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# YUGOSLAVIA AND ITS FUTURE ORIENTATION

*Submitted by the*

### DIRECTOR OF CENTRAL INTELLIGENCE

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

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## YUGOSLAVIA AND ITS FUTURE ORIENTATION

### THE PROBLEM

To estimate probable developments in Yugoslavia over the next few years, with special emphasis on its future orientation.

### CONCLUSIONS

1. We believe that the dominant concern of the Tito regime will remain that of insuring its own survival and avoiding foreign domination. The principal aim of Yugoslav policy is the achievement of beneficial relationships with both power camps with a minimum of Yugoslav commitments to either. Since Tito recognizes that war between the two major power blocs would place his regime in jeopardy, he will also seek to promote policies aimed at reducing the risk of general war. (Paras. 19, 20)

2. Although Yugoslavia has largely completed a "normalization" of relations with the Soviet Bloc and will probably continue to maintain these relations, we estimate that it will not return to the Bloc at least so long as Tito remains in power. (Paras. 21, 22)

3. Despite its desire to be independent of both blocs, the Tito regime recognizes its need for further Western aid and would probably seek to maintain some security ties with the West even if such aid were substantially curtailed. It will probably

agree to further joint planning with its Balkan allies and ultimately to some extent with Italy and NATO, though its acceptance of more formal ties with the West is highly unlikely. (Paras. 24, 25)

4. Yugoslav leaders will continue to desire an Albanian regime under their influence if not under their direct control, and will oppose any Western proposals regarding Albania's future which might prejudice these ambitions. However, Yugoslavia is unlikely to undertake unilaterally any major intervention in Albania, except in the event of a serious governmental crisis in that country, for fear of arousing strong Greek, Italian, UK, and US opposition. (Para. 27)

5. The Djilas-Dedijer affair reflects major differences in view within the party, and some degree of political ferment will almost certainly continue. However, Tito is still clearly the undisputed boss, and we foresee no major threat to internal stability so long as he is alive. (Paras. 33, 36, 37)

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6. Tito's death would be a serious blow to the regime. Even if the transfer of power were to take place without difficulty, it is uncertain whether any successor could develop a comparable degree of control over the party machinery and government. At least at the outset, a successor regime would probably seek to carry out Tito's policies. However, Yugoslavia's orientation would be uncertain if there were a disruptive struggle over the succession or a subsequent deterioration of the regime's strength and unity. (*Paras. 38, 39*)

7. Assuming a continuation of some external aid and credits and reasonably good harvests, Yugoslavia's longer-term economic prospects appear favorable. In the short run, however, Yugoslavia will continue to face the basic problem of how to balance its foreign accounts while pursuing an ambitious development program and making heavy defense outlays. (*Paras. 49, 51*)

8. The Tito regime will probably continue to rely on foreign aid, as well as on increased production for export and further rescheduling of foreign debt payments, to meet this problem. It probably estimates that Yugoslavia's strategic importance will compel the US to continue aid. Curtailment of this aid would thus make serious readjustments necessary, and even though it would probably not critically endanger the Yugoslav economy except in the event of further droughts, the political repercussions might affect Yugo-

slavia's internal and foreign policies. (*Paras. 51, 52*)

9. Despite heavy economic strain, the Tito regime will almost certainly continue its intensive efforts to build up its armed forces. Provided that substantial Western arms aid continues, Yugoslav defense capabilities will continue to improve. Yugoslavia's military position will also be benefited by the Balkan Alliance, under which joint military planning has already developed satisfactorily. (*Paras. 55, 58-61*)

10. The possibility cannot be excluded that secret arrangements may have been made or may be made, between top Yugoslav Communists and the USSR, designed to align Yugoslavia with the USSR in case of general war. There are persistent and unsubstantiated allegations that a secret Moscow-Belgrade deal has already taken place. We believe that such allegations cannot be wholly discounted but that it is highly improbable that they are true. (*Para. 17*)

11. We believe that the present Yugoslav regime would prefer to remain neutral in the event of general war, but probably has little confidence that it could successfully do so. We estimate that Yugoslavia would feel compelled to fight on the side of the West if its Balkan allies were attacked, but if the Balkan area were not invaded it would probably elect to remain neutral as long as the international situation would permit. (*Para. 62*)

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## DISCUSSION

## I. YUGOSLAVIA'S PRESENT INTERNATIONAL POSITION

12. Since June 1948, when Yugoslavia was expelled from the Cominform for its resistance to Soviet domination, its international position has been anomalous. At first reluctant to believe that its ostracism from the Communist world was more than temporary, Yugoslavia was finally forced by Soviet hostility and by its own economic difficulties into closer relations with the West. In 1950 it accepted Western assistance rather than face economic collapse. Since then it has slowly but steadily built up its economic, military, and diplomatic ties with the Western Powers, capitalizing skillfully on Western interest in keeping it free of Soviet domination. To date it has received from the West more than \$700 million in economic grants and credits and close to \$1 billion in military aid. It has reoriented its foreign trade, in 1948 more than 50 percent with the Bloc, into an overwhelmingly Western pattern. It has resolved a number of outstanding differences with the Western Powers, including the Trieste dispute with Italy. It has even gone so far as to enter into mutual defense commitments with Greece and Turkey.

13. At the same time Yugoslav cooperation with the West has been subject to significant limitations. Yugoslav leaders have consistently emphasized their continuing dedication to Communism and have not hesitated on occasion to range themselves alongside the other Communist powers in criticism of various Western institutions and practices. They have been grudging and suspicious in their dealings with the West and have further underlined their unwillingness to identify themselves completely with the capitalist world by efforts to cultivate socialist parties and such neutral countries as India, Burma, and Sweden.

14. These apparent inconsistencies in Yugoslav foreign policy have been intensified in the period since Stalin's death. Although this period was marked by the final abandon-

ment of Yugoslav intransigence over Trieste and by the development of Yugoslavia's friendship pact with Greece and Turkey into a formal defensive alliance signed in August 1954, the most spectacular development of the period has been the restoration of ostensibly friendly relations between Yugoslavia and the Soviet Bloc. In line with this "normalization," the USSR has not only dropped its virulent propaganda campaign against Tito but has gone out of its way to acknowledge the contribution of Tito's partisans to Yugoslavia's wartime liberation, to hail the Trieste settlement, and to admit privately that Yugoslavia had been wrongly treated in 1948. It also appears to have curtailed its support of Cominformist Yugoslav emigres and other anti-Tito subversive activities. "Normalization" of Yugoslav-Bloc relations, which is now largely complete, has included the resumption of full diplomatic relations with the USSR and the Satellites, the establishment of such relations between Yugoslavia and Communist China, the reopening of communications across the Yugoslav borders, the restoration of Yugoslav-Bloc trade in nonstrategic materials, improvement of Yugoslavia's position in the Soviet-dominated Danube Commission, and exchanges of cultural and sports delegations.

15. Yugoslavia was initially cautious about these steps toward "normalization," which were taken almost entirely at Soviet initiative. Of late, however, the Yugoslavs have been increasingly outspoken in welcoming renewed contacts with the Soviet world. Although Tito and his key associates have voiced continuing skepticism about ultimate Soviet objectives and have taken pains to reassure the West that they "will never go back," they have hailed the new Soviet tactic as a demonstration that the Kremlin's new leadership has realized the bankruptcy of the old Stalinist policy. They have clearly been impressed by the reversal of Bloc attitudes toward Yugoslavia and by the parallel indications that a less dominating Moscow attitude toward the Satellites was possibly in the making. They

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have considered that Bloc moves toward rapprochement with Yugoslavia were part of a general slackening of Soviet militancy and that an easing of world tensions was now possible.

16. As Communists who fought to overturn capitalism in Yugoslavia and who look forward to its eventual disappearance elsewhere, the Yugoslav leaders have been uncomfortable at being debarred from friendly contact with other Communist nations and at being forced to consort largely with capitalist nations whose institutions and policies they distrust and whose ultimate preferences would be for a non-Communist Yugoslavia. "Normalization" of relations with the Soviet Bloc has restored the channels through which contacts with the Communist world can be resumed. These developments in the "normalization" trend have placed new emphasis on the possibility of Yugoslavia's realigning itself with the Soviet Bloc.

17. Thus far, however, there is little indication that Yugoslavia is succumbing to Soviet lures. There are persistent and unsubstantiated allegations that a secret Moscow-Belgrade deal has already taken place. We believe that such allegations cannot be wholly discounted but that it is highly improbable that they are true. Yugoslav leaders have remained openly critical of many aspects of the Soviet system and of the aggressive elements of its foreign policy. Moreover, there appears to be no slackening in the spirit of stubborn independence and pride which led Tito and his associates to follow their own concept of Communism despite the Cominform's displeasure, nor in the emphasis on the regime's self-interest which has marked its diplomacy since June 1948.

18. The consequences of the sudden rupture of Yugoslavia's relations with the Soviet Bloc, on which it was almost entirely dependent for trade, economic support, military guidance and supplies, and scientific and cultural contacts, provided Tito with an impressive lesson in the dangers of exclusive cooperation with a single power grouping. Yugoslavia's subsequent relationship with the West has been far less restrictive, but it has still placed

Yugoslavia in a position of economic dependence on the West and has confronted the Yugoslavs with the uncomfortable necessity of considering the impact of their actions on Western official and public opinion. The resumption of "normal" relations with the Soviet countries not only alleviates Yugoslavia's one-sided dependence on the West but also increases its bargaining power.

## II. YUGOSLAVIA'S PROBABLE ORIENTATION AND FOREIGN POLICIES

19. We believe that the dominant concern of the Tito regime will remain that of insuring its own survival and of avoiding foreign domination. For this reason, the practical requirements of maintaining power will continue to override purely nationalistic or ideological considerations. The Yugoslav leadership has shown no indication that it will abandon its coldly realistic view of world power politics or that it will alter its views of where the chief threat to its own survival lies. So long as it considers that this threat is from the Bloc, it is highly unlikely to jeopardize its support by the Western Powers.

20. At the same time, the Yugoslav regime almost certainly believes that its own best interests lie in avoiding too close an association with either great power bloc. In the belief that the threat of Soviet aggression has become less immediate since Stalin's death, Yugoslavia is attempting to achieve beneficial relations with both camps with a minimum of commitments to either one. Yugoslavia's preoccupation with its own independence and security will also lead it to promote policies aimed at reducing the risk of general war. The Tito regime clearly recognizes that in such a conflict between the two great power blocs its own position would seriously be jeopardized.

21. *Policy Toward the Bloc.* In pursuit of the above objectives, we believe that Tito will continue to maintain these "normalized" relations with the Bloc. His regime will remain interested in renewing its contacts with fellow Communists and in influencing the Bloc toward policies favorable to Yugoslavia. However, further relations between Tito and

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the USSR cannot but be affected by a continuing deep distrust and suspicion on both sides. Tito almost certainly would not accept significant Soviet influence over Yugoslavia, even if he were assured of becoming a favored Satellite. Moreover, in his relations with the Bloc he will probably avoid going so far as to risk loss of Western support, though it is possible that he may miscalculate the Western reactions to his moves.

22. We estimate that Yugoslavia will not return to the Soviet Bloc at least as long as Tito remains in power. We believe that the Tito regime would be suspicious of any Soviet attempts to offer him a Bloc status materially different from that of the other Satellites and would consider such an offer a subterfuge. In determining his response to such an offer Tito would have to consider Soviet willingness to make political, economic, and military concessions, the disadvantages of losing Western support, and the internal situation within Yugoslavia. In our view the Tito regime would be likely to realign itself with the Bloc only in the event that the USSR had already basically revised its policy toward the Satellites to such an extent as to convince Tito that Moscow was really willing to permit relations on a basis of equality. We believe that such a basic alteration in Soviet policy to be highly unlikely during the period of this estimate.

23. While we believe that the likely immediate successors to Tito would at the outset be disposed to follow the same policy, we cannot predict the course of Yugoslav policy in the event of his death, especially if there is a struggle for power over the succession.

24. *Relations with the West.* So long as the Yugoslavs regard the chief threat to their independence as coming from the Bloc, we believe that they will continue their policy of seeking countervailing Western support. They regard this relationship as strictly a marriage of convenience. They believe that the West needs them and will support them in its own interest and, for their part, they recognize their need for further Western military and economic aid in building up their own strength. Even if such assistance were

substantially curtailed, Tito would probably still seek to maintain some security ties with the West.

25. Since the Yugoslavs regard military strength as vital to their security, we believe that they will continue their policy of limited military collaboration with the West. They recognize that some degree of joint planning and coordination is essential to maximum defensive potential. They also probably estimate that the West will insist on some degree of cooperation as the price for continued aid. Therefore, they will probably agree to further joint planning with their Balkan allies, and ultimately to some extent with Italy and NATO. However, we believe that Yugoslavia will prefer to keep such arrangements informal. It is highly unlikely that the Yugoslavs would accept more formal ties with the West, such as membership in NATO or the Western European Union, although they may participate in other European organizations such as the Organization for European Economic Cooperation. The Tito regime will probably continue to regard formal military ties as involving undesirably close relations with one power bloc and as endangering the "normalization" of relations with the Soviet orbit.

26. *The Search for a "Middle Position."* We believe that so long as the Tito regime considers that there is a period of reduced international tensions, Yugoslavia will seek increasingly to achieve an independent position in world affairs. This effort will not be allowed to jeopardize Yugoslavia's military arrangements with the West. Yugoslavia will continue to gravitate toward such powers as India and Burma with which it feels a certain identity of interests and outlook. Tito apparently hopes that cooperation with such powers will help to reduce tensions, promote peace, overcome Yugoslavia's isolation, and increase Yugoslav prestige. In the event that international tensions should increase, however, Tito probably would be compelled to place greater emphasis on his ties with the West.

27. *Regional Interests and Ambitions.* Yugoslavia will retain certain special interests and

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ambitions in the Balkan area, but the Tito regime's pursuit of these ambitions will probably be restrained by the requirements of its over-all policies. Yugoslav leaders almost certainly desire to have an Albanian regime responsive to their influence if not under their direct control, despite their public proclamation of interest in having Albania free and independent. To this end, they will continue to support certain Albanian emigre and resistance elements, will endeavor to neutralize the efforts of such powers as Italy, Greece, the UK, and the US to build up similar influence, and will oppose any Western proposals which might prejudice Yugoslav ambitions, particularly those involving partition of Albania or the establishment of a non-Communist regime there. However, Yugoslavia will probably soft-pedal its propaganda efforts to undermine the present Albanian regime so long as the "normalization" policy appears to be producing favorable results. Moreover, it is unlikely to undertake unilaterally any major intervention in Albania, except in the event of a serious governmental crisis in that country, for fear of arousing strong Greek, Italian, US, and UK opposition. For similar reasons, Yugoslavia is unlikely to revive its propaganda claims to Greek and Bulgarian Macedonia so long as the exigencies of the international situation require the avoidance of friction with these two powers.

### III. CHARACTER AND STABILITY OF THE REGIME

#### Present Situation

28. Internally, Yugoslavia remains a Communist dictatorship dominated by the commanding personality of Tito. Power is concentrated in the hands of Tito and a small group of men personally loyal to him who hold interlocking positions in the government, the party, the armed forces, the secret police, and the mass organizations. There is no evidence of significant rivalry among these groups. The rank-and-file of the party are chiefly important as providing the driving force for carrying out the regime's programs.

29. The Tito regime, by its own admission, is still confronted with underlying hostility on

the part of most of the people toward Communism, although Tito himself appears to have won widespread respect for his vigorous leadership and defense of Yugoslav national interests. The peasantry, comprising two-thirds of Yugoslavia's 17,000,000 population, continues to regard Communism with suspicion and dislike, despite the current relaxation of forced socialization in the countryside. The regime's efforts to control and discipline the Roman Catholic and Orthodox clergy and Moslem religious leaders have made the church a continuing symbol of popular opposition to the regime, even outside the ranks of the devout; although the Yugoslavs are not particularly religious, church attendance has remained consistently high. While animosities and grievances among the various minority groups in Yugoslavia appear to be quiescent at present, regional jealousies and rivalries probably contribute in some measure to dissatisfaction with the policies of the present government. The low standard of living remains a countrywide source of grumbling. Under Tito's dictatorship, however, popular opinion has little effect on the regime's stability and is important only insofar as it affects economic productivity.

30. Prior to its 1948 break with Moscow, Yugoslavia consciously imitated the governmental patterns of the USSR. Since 1950, however, Tito and his associates have made a series of efforts to develop a more flexible, efficient, and popularly acceptable system of economic and political controls than that of the USSR, which Yugoslav theoreticians have criticized as stifling initiative, encouraging bureaucratic excesses, and alienating popular opinion. In recognition of the strength of peasant opposition, the drive for collectivization of agriculture has in effect been reversed, with the result that only slightly over two percent of the farm land is now under collective or cooperative control, as against nearly 20 percent in 1951. At the same time the onerous system of crop deliveries has been abandoned and greater production incentives have been provided in the form of credits and higher prices. Decentralization of planning and supervision has taken place under the economic development program.

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31. These changes in the economic sphere have been paralleled by a series of "democratic reforms," including the introduction of workers' councils, decentralization of governmental administration, moves to combat bureaucratic lethargy and to stimulate greater rank-and-file enthusiasm and initiative in Communist Party affairs, and the inauguration of a somewhat less arbitrary exercise of police authority. These concessions, however, have to a large extent been illusory. Although Tito appears to have seriously intended to liberalize the regime to some extent, he was evidently unprepared to face the dissipation of administrative authority and control, and the confusion and dissatisfaction among many old-line party functionaries, which these reforms entailed. The bold program for democratization and reinvigoration of the Communist Party adopted at the Sixth Party Congress in November 1952 was sharply curtailed at a Central Committee plenum at Brioni the following June. The heaviest criticism was levelled at those guilty of relaxing party discipline, spreading of "petty-bourgeois-anarchist ideas of freedom and democracy," and failure to suppress "foreign and antisocialist manifestations."

32. *The Djilas-Dedijer Affair.* Strong sentiment for revival of the liberalization program has nevertheless persisted among some members of the ruling circle. In the fall of 1953 Milovan Djilas, one of the principal advocates of the 1952 program and at the time the No. 3 man in the regime, launched a series of articles charging the party bureaucracy with despotism, sterility of dogma, and self-aggrandizement and advocating that the Leninist doctrine of party dictatorship be dropped and the party apparatus allowed to "wither away" in the interest of "true democracy." In January 1954, after a particularly provocative final article accusing the wives of high party officials of petty bourgeois snobbishness and cliquishness, Djilas was stripped of his party functions and forced into retirement by Tito. However, the whole problem came up again in December 1954, when Vladimir Dedijer, Tito's official biographer, flaunted party efforts to discipline him for backing Djilas and instead took his case to a Western newspaper-

man. Djilas in turn gave an interview to another Western journalist which indicated that he remained even more convinced of the need for greater democracy in Yugoslavia. Both were tried and given light suspended sentences.

33. Although the Djilas-Dedijer affair has apparently had little effect on the stability of the regime, and its outcome indicated that Tito is still undisputed boss, the affair reflects major differences in view between the more liberal and the more authoritarian elements in the party. While Djilas has no organized support, he remains the only Yugoslav Communist other than Tito with any significant degree of popular appeal and his stand has almost certainly evoked favorable reactions among some party members and portions of the general public. This sympathy for Djilas probably extended into the upper echelons of the party, although few if any would endorse his sharp rejection of Marxist-Leninist principles regarding the central role of the party in the state. Dedijer even claims that Vice-President Kardelj and Rankovic, head of the secret police, were among those who privately agreed with Djilas' articles but were afraid to quarrel with the "old man." Tito himself has appeared to lean toward the Djilas viewpoint in the past.

34. However, Tito and Kardelj obviously concluded that Djilas had gone too far and that steps would have to be taken to reaffirm the authority and prestige of the party and governmental bureaucracy and to restore party discipline. In this, they were almost certainly supported by most of the party bureaucracy. Some of these party functionaries were probably motivated primarily by personal resentment of Djilas' onslaught on the party leadership and by concern for the preservation of their rank and authority. However, there are almost certainly others who regard Djilas not merely as a difficult and irresponsible troublemaker but as a dangerous dissenter from Communist orthodoxy. This doctrinaire element is presumably dissatisfied at least to some degree with the dilution of Communism under Tito and even more uncomfortable in the company of the West than other Yugoslav Communists.

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35. As such, they might be particularly susceptible to the lure of realignment with the "first land of socialism" now that Stalin's vindictive policies toward Yugoslavia appear to have been reversed. There are presumably also some Soviet agents and secret sympathizers within Yugoslavia. However, there appears to be no organized Cominform resistance to the Tito regime at present and no evidence of organized pressure for a return of Yugoslavia to the Soviet Bloc.

### Probable Developments

36. Although the immediate result of the Djilas-Dedijer episode will probably be a tightening up of party discipline and a suppression of open controversy, some degree of political ferment in Yugoslavia will almost certainly continue. Basic issues are still unresolved with respect to the form which Yugoslav Communism will ultimately take, Yugoslavia's position in world affairs, and the management of economic affairs. Orthodox elements in the hierarchy will probably press for the strengthening of dictatorial controls over the party, the government, and the economy, and possibly also for the establishment of closer relations with the Soviet Bloc and more distant ones with the West. On the other hand, there will also be continuing sentiment, probably shared to some extent by Tito himself, for the development of a political system which will harness the country's energies on behalf of the regime more effectively and will also serve as an example to other Communist countries.

37. Despite such political ferment, Tito will continue to dominate the Yugoslav situation and we foresee no major threat to Yugoslav internal stability so long as he is alive. He is admired, respected, and feared even by such extreme dissenters as Djilas. It is unlikely that any members of the hierarchy would openly oppose him and extremely unlikely that they could do so successfully. Although Tito's actions will continue to be circumscribed to some degree by requirements of political expediency, the major decisions in the last analysis will continue to be his own.

38. Tito's death would be a serious blow to the regime. Though there is at present little evidence of serious rivalry among Tito's associates, a disruptive struggle over the succession may take place, particularly since Tito's death would almost certainly revive the basic differences revealed in the Djilas affair. Even if the transfer of power were to take place without difficulty, none of Tito's potential successors possesses his personal magnetism and prestige, and it is uncertain whether any successor could develop a comparable degree of control over the party machinery and government.<sup>1</sup>

39. At least at the outset, a successor regime would probably seek to carry out Tito's present domestic and foreign policies, including its probable unwillingness to return to the Soviet Bloc. However, if there were a disruptive struggle over the succession or a subsequent deterioration of the regime's strength and unity Yugoslavia's orientation and policies would be uncertain.

### IV. ECONOMIC SITUATION AND PROSPECTS

40. Following World War II the Tito regime made vigorous efforts to reorganize the Yugoslav economy and force the pace of economic development along Soviet lines. It nationalized nearly all sectors of industry and embarked on an overambitious industrialization program designed to capitalize on Yugoslavia's fairly sizeable but undeveloped supplies of many of the basic resources needed for industrial expansion — coal (mainly brown coal and lignite), iron ore, water power, bauxite, and nonferrous ores.

41. Despite these efforts, Yugoslavia remains a poor and predominantly agricultural country, although considerable industrial progress has been made. Its economic development

<sup>1</sup> The most prominent candidate for the succession is Vice-President Kardelj, a distinguished Marxist theorist who is the real architect of Yugoslavia's so-called new socialist democracy, has taken an active role in Yugoslav foreign policy, and has been a sort of alter ego to Tito. Other potential candidates are Rankovic, head of the secret police; Gosnjak, who heads the defense establishment; and Vukmanovic-Tempo, the economic czar of the country.

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program has run into serious difficulties. These arise from a combination of factors, among them: (a) a shortage of capital, capital equipment, and industrial and scientific know-how; (b) the regime's own inexperience and doctrinaire rigidity resulting in inefficiency and mismanagement; (c) the regime's need completely to reorient its trade relations following the 1948 break with Moscow and the subsequent Bloc economic blockade; (d) the concurrent economic drain of extremely high defense outlays; and (e) a lag in agricultural production occasioned largely by obsolete methods, by peasant distrust of the regime, and by a series of disastrous droughts.<sup>2</sup>

42. In 1950 these factors confronted Yugoslavia with economic collapse, from which it was saved only by inauguration of large-scale Western aid. This dependence has continued, and up to June 1954 the US, UK, and France have extended some \$464 million in grant economic aid, including about \$360 million from the US. (Plans for FY 1955 call for an additional \$149 million, including \$140 million from the US.) Yugoslavia also received extensive loans and credits which, combined with comparatively small prewar debts, amount to over \$400 million. Servicing of these loans and credits has contributed to serious balance of payments difficulties.

43. The Yugoslav leaders were also forced to abandon their overambitious Five Year Plan (1947-1951). They began gradually decentralizing the rigid economic planning and control system and substituted for the Five Year Plan a looser series of annual "Social Plans." These set forth the general framework in which the economy is to operate and specify annual production targets. Outlays for heavy industrial development were reduced slightly below the levels originally planned and were concentrated in some 150 "Key Projects," (ore processing plants, power plants, development of mines, oil refineries, etc.) which were chosen as being the most likely to make an early improvement in the

<sup>2</sup> In the seven years since the Cominform break, there have been three droughts. The prewar level was approximately one drought year in three.

balance of payments position. The regime also shelved its agricultural collectivization program and has permitted the peasants to withdraw from the collective farms.

44. Despite its more realistic economic program, Yugoslavia has continued to face serious problems. In part these arise from the continuation of a large part of the ambitious industrialization program and heavy defense expenditures, which claim the high proportion of 25 percent and 16 percent of GNP respectively. Although the over-all index of industrial production has risen from 167 in 1949 (1939=100) to 209 in September 1954, many of the "Key Projects" are considerably behind schedule. Moreover, agricultural output has continued to lag seriously, owing largely to peasant resistance to the regime and to the serious droughts in 1950, 1952, and 1954.

45. As a result of these factors Yugoslav economic growth has been severely retarded. GNP fell sharply in FY 1953 and despite a subsequent recovery it is estimated that GNP for the present fiscal year will be only two percent over the FY 1952 figure. The best available estimate of total GNP is \$3.7 billion in 1953-1954 as compared to \$1.8 billion for Greece and \$5.4 billion for Turkey. Per capita GNP is roughly comparable in all three countries. However, the percentage of Yugoslav GNP devoted to consumption is lower than that of any Western European country, and the Yugoslav standard of living is little if any higher than before the war.

46. Yugoslavia's need to import foodstuffs during the drought years, its imports for defense and capital investment programs, and the difficulty of reorienting its trade from the Bloc to the West have led to severe balance of payments difficulties. It has been able to balance its foreign accounts only through Western grants and loans. Largely because of these loans Yugoslavia is burdened with a foreign debt as of 31 August 1954 of almost \$400 million, which it is finding difficult to service. However, its over-all balance of payments deficit has declined from \$213 million in 1952-1953 to \$145 million in 1953-1954.

47. During 1954 a revival of Yugoslav trade with the Soviet Bloc took place largely on

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Bloc initiative, and trade agreements, mostly for short periods, were concluded with all Bloc countries except Albania and Communist China. So far in 1955 annual agreements have been concluded with four of these countries. If these agreements are fulfilled, the trade would approximate 13 percent of total Yugoslav foreign trade. Negotiations are in progress with other Bloc countries and this figure will probably increase. The comparable prewar figure was 15-20 percent and for 1948 was 50 percent. Yugoslavia has a clear economic basis for welcoming such trade, since the Bloc can supply fuels, raw materials, and even capital goods which must otherwise come from hard currency areas. The Yugoslav Government has assured the US that it will not ship strategic materials to the Bloc. Such small shipments as have occurred are probably attributable to weaknesses in control of transshipments.

48. Yugoslavia's exports to Western Europe have declined from a high of 77 percent of total exports in 1952 to 69 percent for the first half of 1954. Exports to North America have also declined. This trend is due primarily to the difficulty the Yugoslavs have in marketing their exports (particularly new manufactures) in these areas. The difference has been mainly made up in increased trade with the Middle East and Latin America. Thus, while Yugoslavia continues to be dependent on dollar imports, its dollar earnings and earnings of convertible Western European currencies are declining.

### Economic Prospects

49. Assuming a continuation of some external aid and credits and reasonably good harvests, Yugoslavia's rate of economic growth should gradually increase and its longer-term prospects appear favorable. Industrial production will probably continue to increase as more of the "Key Projects" come into operation, and should lead to greater exports. Sufficient agricultural improvement to permit maintenance of a substantial export program is almost certainly a long-term matter and any further crop failures would involve the need for emergency food imports. The govern-

ment will probably modestly increase investments in agriculture but it is unlikely that these investments will be sufficient to lead to any substantial short-term increases in production.

50. Barring droughts, Yugoslavia will probably be able to effect further gradual reductions in its foreign trade deficit, but there is little prospect that it can achieve a balance in its payments over the next two or three years. Moreover, it is now in the period when its foreign debt requires the largest annual servicing, ranging from \$37 million to \$48 million in 1955-1957. Some additional re-scheduling of this debt may be possible but even a complete moratorium could not by itself eliminate Yugoslavia's payments deficit, which will continue to stem in the first instance from an adverse trade balance.

51. In the short-run therefore, Yugoslavia is still faced with the same basic problem it has had ever since its break with the Cominform — how to balance its foreign accounts while pursuing an ambitious development program and making heavy defense outlays. We believe that the Tito regime will remain unwilling to cut defense expenditures and reluctant to cut capital investment significantly, but will continue to pursue a policy of relying on foreign aid, increased industrial and raw material exports, and further re-scheduling of Yugoslavia's foreign debts to reduce its payments imbalance. Tito probably estimates that the strategic importance of Yugoslavia to the West is such that the US will feel compelled to continue some military and economic aid.

52. Curtailment or elimination of foreign economic aid would force Yugoslavia to make significant adjustments in investment, defense, or consumption. In the absence of further serious droughts, such adjustments would not critically endanger the Yugoslav economy, but the political repercussions might affect Yugoslavia's internal and foreign policies. We are unable to estimate which adjustments the government would make, since a cut in any sector would entail serious disadvantages.

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53. In view of the desperate need to increase agricultural production and of the peasant distrust of the regime, we do not believe that the government will revert to the Soviet-type farm collectivization program which it abandoned in 1952-1953. While the government, because of its need to control agriculture, probably retains the ultimate aim of socializing the countryside, it will probably approach this through cooperatives in which the peasants will continue to own their land, but will cooperate on purchasing, marketing, credits, etc.

54. Trade between Yugoslavia and the Soviet Bloc will probably increase so long as political considerations on both sides favor it. The extent to which this trade will approach or exceed prewar levels will depend both on the Bloc's economic and political incentive to expand this trade and Yugoslavia's fear of becoming seriously dependent on the Bloc. It is unlikely that this trade would again approach the level of 1948 or that trade considerations alone could impel Yugoslavia to return to the Bloc.

#### V. MILITARY TRENDS

55. Despite heavy economic strain, the Tito regime is continuing its intensive efforts to build up Yugoslavia's armed forces. Defense outlays in the past three years have been some 16 percent of GNP. Substantial imports of military supplies (over and above US military aid) also have contributed greatly to Yugoslavia's foreign trade deficit. However, we believe that the regime is highly unlikely to make any significant reduction in the Yugoslav military establishment, since it is still anxious to strengthen itself against the threat of Bloc aggression.

56. The Yugoslav military forces and the security police constitute the major elements in the regime's control of the country. Recognizing the importance of the support of the military, the regime has favored the armed forces; most of the officer corps has received some tangible evidence of the regime's interest in its welfare. Although there has been some evidence of Comin-

formism in the officer corps in the past, there is no reason to believe that the officer corps is disloyal to the regime.

57. By far the most important factor in the improvement of the Yugoslav armed forces over the past few years has been US military aid, which since 1951 has amounted to nearly \$1 billion (the figure for FY 1955 is roughly \$150 million). Yugoslavia's armaments industry is now producing some small arms and light artillery as well as ammunition for these weapons. Yugoslavia also has a modest shipbuilding industry. However, it remains dependent on outside sources for all other types of equipment and ammunition. Therefore, a cutting-off of US arms aid (unless replaced from other sources) would in time markedly reduce the combat capabilities of the Yugoslav forces, particularly the air force.

58. *The Yugoslav Army* of 300,000 men is organized into 29 rifle and three armored divisions. It is considered well trained up through regimental level, and two-thirds of the divisions are considered combat ready. The army is currently deployed to meet threats from the Satellites. There are also 35,000 Border Guards. By M+90 the army could be expanded to 1,200,000 men and 44 divisions, but the reserve units would lack heavy weapons and supplies. Yugoslav soldiers are well-trained, tough, and intensely patriotic. The army's chief weaknesses are: shortage of both heavy and communications equipment; heterogeneity and obsolescence of much of the equipment on hand; the inexperience of senior officers in handling large forces in combined operations, including air support of ground forces. Assuming continued US aid, the capabilities of the army will continue to improve.

59. *The Yugoslav Air Force*, whose primary mission is ground support, is now in the process of conversion to jet aircraft. Principal operational aircraft include approximately 115 F-84G's, 140 F-47D's, and 100 S-49's<sup>a</sup> all utilizable in a fighter or fighter/bomber role. Also there are about 125 Mosquitos and 200

<sup>a</sup> An obsolete piston single engine fighter of Yugoslav manufacture.

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obsolete IL-2's, and PE-2's available for reconnaissance, light bombing, and attack purposes. Personnel strength totals nearly 28,000 including about 1,000 qualified pilots. Largely as a result of US aid and training this air force has improved rapidly during the past three years and, as long as such aid and training are continued, air force combat capabilities will further improve over the next few years. By mid-1956 it is planned to have nine fighter-bomber squadrons (F-84G's) and three interceptor day fighter squadrons (F-86's). As these aircraft, radar, and communications equipment are received, the air force should also develop a limited air defense capability. During this same period eight airfields will be available for the handling of these jet aircraft, including five airfields considered to be fairly secure from initial ground force attack.

60. *Yugoslavia's Navy* is a 27,000-man coastal force of four coastal destroyers, one submarine, 95 patrol craft including 79 motor torpedo boats, 30 mine vessels, 48 landing craft, and some 200 other types including 35 stationed on the Danube. Although it has a weak logistical system, the Navy's combat readiness appears to be high. However, its capabilities are limited to coastal defense, blockading Albania, and supporting small amphibious attacks against that country. With continued Western aid, the effectiveness of the navy should improve, but it will almost certainly remain a minor force with limited capabilities.

61. *Yugoslav Capabilities and Intentions in Event of War.* The Balkan Alliance has bolstered Yugoslavia's military position, and military planning under the Alliance has developed satisfactorily. However, if confronted by a concerted Satellite attack logistically supported by the USSR, we believe that Yugoslavia would be forced to give up the plain of northeast Yugoslavia. It would be able to withdraw sizeable organized ground units into the mountains. After such a withdrawal some organized resistance could probably be maintained with prompt and substantial military support from the West. Guerrilla activity would probably continue as long as the Yugoslav people retained a hope of liberation by the West. However, under the impact of defeat and the dispersion of the army, the opportunities for popular and unit defection would increase. In those circumstances, pro-Western anti-Tito guerrilla forces might be formed.

62. We believe that the present Yugoslav regime would prefer to remain neutral in event of a general war despite its Balkan Pact commitments. However, it probably has little confidence that it could successfully do so, since Yugoslavia lies athwart the main invasion routes of Southern Europe. Therefore, we estimate that Yugoslavia would probably feel compelled to fight on the side of the West if its Balkan allies, Greece and Turkey, were attacked. If, however, the Balkan area were not invaded, Tito would probably elect to remain neutral as long as the international situation would permit.

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