YUGOSLAVIA

U.S. POLICY TOWARD YUGOSLAVIA

114. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, January 2, 1958, noon.

1032. Department pass OSD Paris for CINCEUR. Embtel 1031. 1 In course of farewell visit2 to Defense Minister Gosnjak he indicated Yugoslav Government desire purchase spare parts in United States. 3 He said he planned to leave some of Yugoslav officers now in training in United States as nucleus for eventual purchasing mission. He hoped that increased Yugoslav exports will create sufficient foreign exchange for payment but if such should not prove the case, Yugoslav Government may eventually ask for assistance in form of credits. I replied that subject to question of priorities with which he was familiar as we had often discussed it I foresaw no major difficulty in purchasing spare parts. If credits were eventually required that would have to be discussed between our governments presumably outside of previous military aid arrangements. Gosnjak said he fully understood this and concluded in expressing hope Yugoslavia "would not be forced to seek spare parts in other regions".

Riddleberger

Source: Department of State, Central Files, 768.5-MSP/1-258. Confidential. Repeated to Paris.

1 Telegram 1031, December 31, 1957, reported on the second negotiating session between U.S. and Yugoslav representatives on the termination of the military assistance agreement. (Ibid., 768.5-MSP/12-3157)

2 Riddleberger's appointment as Ambassador to Greece was announced on December 10, 1957. On December 13, President Eisenhower announced the appointment of Karl L. Rankin as Ambassador to Yugoslavia.

3 Documentation on the Yugoslav decision to terminate the mutual defense assistance agreement is in Foreign Relations, 1955–1957, vol. XXVI, pp. 611 ff.
115. Telegram From the Embassy in Austria to the Department of State

Vienna, January 13, 1958, 10 a.m.

1976. For O'Connor from McCollum. Hanes and I with Emb officers today (January 11th) discussed with Interior Minister Helmer and his staff problem Yugoslav refugees. We offered: 1) $3 million Title II PL 480\(^1\) surplus commodities for camp feeding but not for resale, 2) approximately $700,000 USEP assistance for processing, visa documentation, and resettlement support, and 3) continued US contribution to ICEM for emigrant transportation.

Helmer reacted strongly insisting that they do not meet either Austrian financial requirement or, to him, more important problem of moving Yugoslavs from Austrian territory. He states that Austria, because of free world unwillingness to take Yugoslavs off Austrian hands, must now consider closing border to all but Yugoslav political refugees, with appropriate explanation to world press of reasons for this decision.

With reference Title II proposal, Helmer requested that we seek change in principle which would permit straight Title II program, as was done in case Hungarians, permitting sale of surplus agricultural commodities in Austria, proceeds of which would be used Austrian Govt to cover Yugoslav refugee costs.

Embassy itself also feels strongly, on basis of past difficulties with handling programs involving surplus commodities for camp feeding, that this policy switch should be made.

Believe reconsideration should also take into account fact that program is fundamentally one of aid to refugees which is recognized as in interests entire free world, and therefore much less likely produce adverse reaction such exporting countries as Canada and Holland based on market considerations. Austrian food market itself has been swelled by influx refugees, which fact likely further minimize any possible disruptive effect of local sale of surplus commodities. Embassy naturally fully aware such potential difficulties, but believes commodities can be offered and program handled so as to preclude difficulties, as was case with similar highly successful $10 million Hungarian refugee operation.

Accordingly, we and Embassy urge that original OCB policy\(^2\) be reinstated and approval be given by Department and ICA; also suggest

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\(^1\) For text of P.L. 480, the Agricultural Trade and Assistance Act of 1954, see 68 Stat. 454.

\(^2\) At its December 11, 1957, meeting the OCB approved a special report on Yugoslav defectors in Austria and Italy that limited the amount of financial aid available. The OCB report and other documentation on refugee policy are in Department of State, OCB Files: Lot 62 D 430, Escapee Program.
preliminary inquiry possibility utilizing 1957 unused ICEM funds for transportation.

Re movement of Yugoslavs out of Austria, we recommended that Austrian Government request ICEM at Geneva to urge ICEM member countries at working party conference in Washington February 3 make strong appeal accelerate immigration of Yugoslav refugees.

Request earliest possible communication to Embassy repeat Geneva for McCollum re Title II policy in order permit further exploratory conversations with Interior Ministry and other appropriate Austrian authorities.

Assume similar reaction Italians and therefore above request on OCB policy should apply both countries.³

Matthews

³ A note on the source text reads: “answer wired previous to receipt of this wire. No answer this particular cable required. SCA, S.L. Wagerheim 1/15/58.” The answer has not been identified.

116. Memorandum of Conversation


SUBJECT
Call of the Yugoslav Ambassador Concerning Delays in Releases of Local Currency

PARTICIPANTS
Mr. Leo Mates, Yugoslav Ambassador
Mr. Dillon, W
Mr. Katz, EE

The Yugoslav Ambassador called at his request to bring Mr. Dillon’s attention to the difficulties arising from the considerable delays involved in releases of funds generated by PL 480. The Ambassador cited two current cases, the 1957 program release and the so-called Jadraniski Put (Adriatic Highway), which have caused particular difficulties. The

1957 release is now one year behind schedule. Because of the long delay in approving this program, the Yugoslav Government has had to proceed with the projects with credits from the National Bank. Now, however, ICA cannot finance the projects because of the regulation prohibiting debt retirement. As a result, there seems to be an impasse on this question.

The experience with the Jadranski Put is even more discouraging, the Ambassador stated. The U.S. committed itself in January of 1955 to finance this project. At a later date more detailed information was requested from the Yugoslav Government. In March 1957, the Yugoslav Government supplied the most precise information on the project but to date it has not been approved. In fact, the U.S. Government, Ambassador Mates said, appears to have changed its position, since Mr. Weiss, Deputy Director of the USEP, informed the Yugoslav Government that the U.S. now wished to shift its financing from a grant to a loan.

It was explained to the Ambassador that the U.S. originally agreed to finance the Jadranski Put as a military project. In view of the proposal of the Yugoslav Government, however, to terminate military assistance in any or all forces, it was considered appropriate that the project be financed not as a military facility, but as an economic development project. Furthermore, in view of Vukmanovic-Tempo’s recent statements reiterating that Yugoslavia wanted loans not grants,¹ it was considered that putting the project on a loan basis was consistent with the desire of the Yugoslav Government. In presenting this explanation, it was emphasized that we were not asking to justify the inexcusable delay in approving the project.

The Ambassador seemed somewhat taken-aback by the above explanation and stated that Belgrade had not explained this background to him. He said he would, of course, report this conversation back to Belgrade.

Mr. Dillon commented that the local currency problem was not peculiar to Yugoslavia. It was a general problem, although the problem appeared to be particularly serious in Yugoslavia. He stated that he intended to look into this general problem personally and that perhaps Yugoslavia would serve as a test case. He was therefore glad to leave [have?] the information presented by the Ambassador.

Ambassador expressed appreciation for Mr. Dillon’s personal interest in this matter and hoped some way could be found to expedite release of local currency.

¹ In a January 10 address to the Federal Council of the Yugoslav Socialist Alliance, Vukmanovic-Tempo also praised the United States for providing assistance to Yugoslavia without attempting to interfere in its internal affairs.
117. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, February 7, 1958, 6 p.m.

1178. Department for OSD. Paris for CINCEUR and DEFREP-NAMA; Bonn for USAEUR. In informal meeting today with Bruner, Foreign Secretariat, form and content document terminating military aid discussed (Embassy telegram 1142). 1 Bruner outlined type of document which Yugoslavs will present for discussion at next negotiating session. Document will be “memorandum of understanding” noting mutual agreement terminate military aid and specifying that bilateral and other agreements relating to military aid are considered as terminated. (Embassy requests list of such other agreements by telegram and copies by pouch.) Other points cover Yugoslav title to military material received under program; agreement on transfer of minesweeper title; agreement carry out OSP signal corps contracts “commercial basis”; agreement complete training with funds made available prior aid termination; departure all AMAS staff by March 31, 1958; agreement that other agreements between two governments which might have military aspect be considered as purely economic (this point relates to use of funds generated by surplus sales for defense support projects such as Jadraniski Put); agreement to start negotiations for purchase military equipment on commercial basis and use on reimbursable basis of US supported facilities in Europe; undertaking of Yugoslav Government to honor certain residual commitments under bilateral agreement, e.g., obligation not to transfer title, use of material in harmony UN Charter, etc.

Bruner stated that Yugoslavs anxious press forward with final termination document along lines outlined above and would appreciate receiving our views on such a document at next negotiating session. It is Embassy’s impression on basis Bruner comments and position at negotiating sessions that Yugoslavs will insist on specific abrogation of bilateral agreement.

On question minesweepers, our position on December 12 cutoff date reiterated (Department telegram 688). 2 Bruner indicated that once

Source: Department of State, Central Files, 768.5-MSP/2–758. Confidential. Repeated to Paris and Bonn.

1 Telegram 1142, January 29, reported on the third negotiating session on the termination of the U.S.-Yugoslav military aid program and requested instructions on the form and content of a document formally terminating the agreement. (Ibid., 768.5-MSP/1–2968) In telegram 688 to Belgrade, February 5, the Department of State replied that the question of the form and content of a terminating agreement was under study and a reply would be sent as soon as possible. (Ibid.)

2 Telegram 688, February 5, outlined the U.S. position on payment for minesweepers under construction for Yugoslavia as a part of the canceled mutual assistance program. (Ibid.)
agreement reached on this point, agreement for passage of title to Yugoslavia could be incorporated into final "memorandum of understanding." Embassy anticipates on basis conversation with Bruner that Yugoslavs will probably accept December 12 date (and requirement reimburse payments made under contract since that date) but will resist efforts introduce Navy contracting team on grounds that no further negotiations on contract amendment necessary beyond incorporation of agreement to transfer title in "memorandum of understanding." Since this point will be raised at next meeting, would appreciate being informed legal requirements necessitating presence in Yugoslavia of Navy contracting team.

Assuming Yugoslavs, as Embassy expects, insist on abrogation 1951 agreement, Embassy believes it would also be useful to have available information on implications such abrogation on future military equipment purchases.

Department's comments on Yugoslav termination proposals requested. Further negotiating schedule tentatively scheduled for February 14 at which time Yugoslavs will wish discuss both minesweeper contract and termination document.

O'Shaughnessy

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3 For text of the Military Assistance Agreement signed in Belgrade, November 14, 1951, see 2 UST 2254.

118. Telegram From the Department of State to the Embassy in Yugoslavia

Washington, February 13, 1958, 6:26 p.m.

714. Points outlined Embtel 1178 under intensive study but regret unable provide detailed guidance prior meeting February 14. Accord-

Source: Department of State, Central Files, 768.5-MSP/2-758. Confidential. Drafted by Hill and cleared by Rehm in L and the Department of Defense. Repeated to Paris for CINCEUR and DEFREPNAMA and to Bonn for USAEUR.

1 Document 117.
ingly suggest you take position US shares Yugoslav desire press forward with final termination talks and will give prompt attention whatever draft Yugoslavs ready submit. You should state however our strong preference for exchange notes rather than memorandum understanding and our desire treat separately question military sales which we consider extraneous to termination aid document. You may however assure Yugoslavs sale question receiving urgent consideration. You may further indicate US would prefer not abrogate 1951 MAP bilateral although this point should not be pressed if Yugoslavs adamant.

FYI. Final termination document will require Department Circular 175 clearance hence full text Yugoslav proposal with your suggestions and comment desired soonest. Re 1951 bilateral we would prefer maintenance in force even though inoperative for present but we would not wish press Yugoslavs to unilateral termination. OSP minesweepers question subject separate message.

Herter

2 Circular 175, December 13, 1955, outlined procedures under which the Department of State granted authority to its representatives abroad to conclude treaties or other formal agreements with foreign governments.

3 In telegram 713, February 13, the Department of State commented that it had no objection in principle to the transfer of minesweepers, but it must be done in a manner consistent with U.S. administrative and legal requirements. The Embassy was instructed to complete negotiations on the minesweepers prior to the exchange of military assistance program termination documents. (Department of State, Central Files, 768.5–MSP/2–758)

119. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, February 17, 1958, noon.

1204. Department pass OSD, Paris pass DEFREPNA. Bruner submitted draft transmitted Embassy despatch 394 as “suggestion” not

Source: Department of State, Central Files, 768.5–MSP/2–1758. Official Use Only. Repeated to Paris. Ambassador Rankin arrived in Belgrade on February 8 and presented his credentials to President Tito on February 19.

1 Despatch 394, February 14, transmitted the Yugoslav draft of a note terminating the mutual defense assistance agreement. (Ibid., 768.5–MSP/2–1458)
something firmly espoused by Yugoslav Government. Draft had originally been prepared as memorandum of understanding (Department telegram 714)\(^2\) but Bruner readily agreed embody finally agreed language in exchange of first person notes.

(1) Regarding abrogation of 1951 bilateral, this is "absolute political necessity" of Yugoslav Government and judging from firmness with which Bruner advanced it, there little point in arguing matter further. Formulation in paragraphs 1 and 2 of Yugoslav draft flows, according to Bruner, from same motivation. Yugoslavs prefer bilateral be canceled in its entirety and voluntarily assume obligations reported in paragraph 2 as something separate and distinct from relationship hitherto obtaining on basis bilateral. Latter connection, Bruner admitted omission of language in paragraph 2 regarding use of weapons furnished, etc., was oversight which should be corrected.

(2) Regarding paragraph 3, Yugoslav still refused accept December 12 date. Bruner declined argue matter and claiming decision must be made by plenary session of negotiating commission. Yugoslav position remains that cutoff date is one of "technical details" which commission was established to negotiate and that since all issues are to be "negotiated", actual details on which decision to terminate reached is irrelevant.

(3) As regards paragraph 4, Bruner reiterated request for information concerning "details" which negotiating team is required to settle. It apparent from Bruner's argumentation that Yugoslavs are prepared be adamant on entry of naval negotiating team in absence more persuasive argumentation than that contained Department telegram 731 [713]\(^3\) as to administrative and legislative requirements which must be met and "excessive details" which it would be necessary insert in termination document, Embassy is not in good position to insist. Embassy requests detailed clarification this point.

(4) Yugoslavs insisted explicit statement of date by which AMAS will have left Yugoslavia (paragraph 7 of Yugoslav draft), arguing that they accepted maximum AMAS estimate (originally formulated as "60 to 90" days) and agreed without argumentation that it should run from January 1 rather than December 17, date of first negotiating meeting. Typical Yugoslav suspicions would be aroused by further effort eliminate date. Present formulation is designed permit some latitude by further agreement in event of absolute necessity.

(5) Bruner insistent that Yugoslavs desired paragraph along lines their draft paragraph 8, advancing their understanding that US is endeavoring, on basis agreement to terminate military assistance, relieve

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\(^2\) Document 118.

\(^3\) See footnote 3, Document 118.
itself of obligations previously undertaken to build Jadraniski Put on grant basis. Pertinence of paragraph 8, so far as Yugoslav argumentation is concerned, is to hold US to such obligations as it has already undertaken in this regard without, however, increasing them. Embassy officer pointed out entire paragraph seemed irrelevant and of nature which would create difficult and time-consuming legal problems, but Bruner was insistent.

(6) Original Yugoslav draft had paragraph relating to future military sales which Bruner agreed to drop without argument. He accepted with appreciation assurances on basis Department telegram 714 that matter receiving urgent consideration by Department.

(7) Embassy's comments and recommendations will be forthcoming when USOM and AMAS have had opportunity to study draft. Meantime would appreciate information requested paragraph (3) above.

Rankin

4Telegram 1220 from Belgrade, February 21, reported the consensus of USOM, AMAS, and the Embassy that until a number of substantive points were agreed upon, there was little point in negotiating the language of notes terminating the military assistance program with Yugoslavia. One of the most important points of disagreement was Yugoslav insistence that the effective date of the agreement be the date of the signature of the termination agreement. Acceptance of this date would significantly reduce the payments owed by Yugoslavia to the United States for the minesweepers it had ordered under MSP. (Department of State, Central Files, 768.5-MSP/2-2158)

120. National Security Council Report


DRAFT STATEMENT OF U.S. POLICY TOWARD YUGOSLAVIA

General Considerations

U.S.-Yugoslav Relations Since 1948

1. The Tito-Kremlin break of 1948 and the consequent departure of Yugoslavia from the Soviet bloc served U.S. interests through (a) the
continued denial to the USSR of important strategic positions and other
assets, and (b) the political effects, on both sides of the iron curtain, of a
break in the “monolithic” Communist bloc.

2. In order to preserve these gains, the United States extended eco-
nomic and military aid to Yugoslavia. This aid was of crucial impor-
tance in keeping the Tito regime afloat under severe Soviet pressures
and—by indicating U.S. concern with Yugoslavia’s independence—in
discouraging any Soviet inclination to attack Yugoslavia. A further U.S.
purpose, as the military and economic aid programs developed, has
been to utilize them to influence Yugoslavia toward closer political, eco-
nomic and military collaboration with the West, and to encourage such
internal changes in Yugoslavia as would facilitate this orientation.

3. The military aid program became in recent years a source of fric-
tion between the United States and Yugoslavia. In the United States the
program was subjected to severe criticism in the Congress and by some
segments of public opinion. Repeated suspensions or slowdowns in de-
liveries in response to Yugoslav foreign policy positions, and accompa-
nying public statements in the United States, irritated the Yugoslav
Government and embarrassed it in its relations with Soviet bloc coun-
tries. Finally, in December 1957, the Yugoslav Government apparently
concluded that the rate and composition of U.S. arms deliveries no
longer justified the difficulties the program caused in its foreign rela-
tions, and it therefore decided henceforth to depend on purchases of
military equipment.

4. U.S. military grant aid to Yugoslavia was terminated in Decem-
ber 1957, in accordance with Yugoslavia’s request. At that time, the total
grant aid military assistance programmed for FY 1950–1958 amounted
to $745 million, plus excess stocks valued at $28 million. Of this pro-
grammed amount, virtually all of the excess stocks had been delivered
by 31 December 1957, and it is estimated that about $681 million of the
regular program had been delivered by that date. The undelivered bal-
ance of $64 million included a substantial amount of ammunition, vehi-
cles and artillery, 4 minesweepers, and 137 jet aircraft. In addition, 153
other jet aircraft, valued at about $40 million, were scheduled to be de-
ivered to Yugoslavia from MAP inventories in possession of other re-
cipient countries. These aircraft are not included in the $745 million total
program, or in the undelivered balance. The Yugoslavs have indicated,
subsequent to their request to terminate the grant aid program, that they
hoped in the future to be able to purchase such spare parts and supplies
as they might require.

5. U.S. economic aid since the Tito-Kremlin break, including that
programmed for FY 1958, has totaled $783 million of which approxi-
mately $695 million has been expended. This aid has fallen broadly into two categories: (a) raw materials as defense support, and (b) food, to meet the problems caused largely by serious droughts and chronic food deficit conditions. In the last three fiscal years U.S. economic assistance has consisted largely of sales of U.S. surplus agricultural commodities under P.L. 480.

6. As a by-product of these economic aid programs, the United States has accumulated the equivalent of some $57 million of Yugoslav currency (i.e., dinars) for U.S. Government use. Substantial additional amounts may be expected to accrue as sales of surplus agricultural commodities and other forms of economic aid continue. Ordinary U.S. uses for Yugoslav currency are only about $1 million per year, and special programs which have been considered to date for the use of this currency would utilize only a small proportion of existing holdings. The use of these holdings to acquire substantial amounts of commodities in Yugoslavia would counteract the effect of current programs in support of Yugoslavia's balance of payments.

6–A. In addition to dinar holdings reserved for U.S. uses, the United States also, as a result of these aid programs, has obtained or will obtain title to dinars in an amount nominally equivalent to nearly $300 million, which are available for loans or grants to the Yugoslavs. U.S. delay in disbursing promptly these funds in financing appropriate economic development projects in Yugoslavia is creating friction with the Yugoslavs.

Soviet Policy toward Yugoslavia

7. After the death of Stalin the USSR gradually undertook to “normalize” relations with Yugoslavia, which since 1948 had been characterized by Soviet dedication to the overthrow of Tito's regime. The new Soviet leaders, especially Khrushchev, apparently believed that the split with Yugoslavia was one of Stalin’s major policy failures and that the prospective gains from a rapprochement outweighed such possible dangers as Yugoslavia’s potentially disruptive influence on the Soviet bloc. Although progress toward “normalizing” Soviet-Yugoslav relations was interrupted in 1956 by events in Poland and Hungary, meetings between Yugoslav and Soviet leaders in 1957 led to rapid improvement in relations and the renewal of agreements in principle on trade and credit arrangements and on party and state relations. After

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1 Consists of $380 million in Defense Support, Direct Forces Support and Technical Exchange; $222 million under Title I and $28 million under Title II of P.L. 480; and $65 million under the FY 1951 Emergency Food Relief Assistance Program. [Footnote in the source text.]

2 This paragraph falls on page 4 of the source text, which bears the typewritten notation: "Revised 3/3/58." Presumably paragraph 6-A was added at that time.
the sudden removal of Zhukov and the reassertion of Soviet primacy in the Communist world following the Moscow celebration of the 40th Anniversary of the Bolshevik revolution, Yugoslav leaders reassessed their position vis-à-vis the USSR. Since that time relations between the two countries again cooled, but it now appears that they are being conducted on a “correct basis”.

8. The ultimate objective of Soviet strategy toward Yugoslavia is probably the reassertion in some effective form of Soviet control over that country. For the shorter term the Soviet objectives are probably (a) the effective neutralization of Yugoslavia so that it will not maintain security ties with the Free World and so that its armed forces and terrain will be denied to the United States and its allies, (b) the re-establishment of close party and state relations with Yugoslavia, (c) exploitation of Tito’s voluntary alignment with the USSR on most international issues to rally support among uncommitted nations for certain broad Soviet foreign policy objectives, and (d) increased Yugoslav economic dependence on the Soviet bloc.

Development of Yugoslav Policy

9. Consistently since 1948 Tito’s main purpose has been to preserve Yugoslavia’s independence and his regime. In the period of extreme Soviet pressure, for example, he attempted to assure himself of military support from the West in case of war and found it expedient to obtain Western aid. Tito remained cautious, however, and tried to maintain as much freedom of action in foreign affairs as his difficult external and internal situation allowed. With the change of Soviet leaders after Stalin’s death and the emergence of Khrushchev as the leading figure in the Kremlin, Tito apparently became less fearful of the possibility of a Soviet attack. Moreover, despite some misgivings, he apparently interpreted Soviet moves as signaling Soviet acceptance of Yugoslavia’s independent position and as contributing to relaxation of tensions. Tito apparently felt impelled toward greater cooperation with the USSR by a need to counter the weakening of Communism as a system of government in Eastern Europe. He also recognizes that in the West, particularly in the United States, there is a basic hostility toward any Communist regime and a consequent danger that excessive exposure to Western influences would increase his internal security problems.

10. The Yugoslavs will probably resist any Soviet attempts to assert hegemony over them, and will continue efforts to exert an influence on developments within the Communist world. They will continue to insist upon recognition for the doctrine of “separate roads to socialism”, which presupposes a situation of equality, independence and non-interference. Something more than ideology is the stake here; the Yugoslavs have shown themselves sensitive to the military threat to their own se-
curity posed by Soviet forces at their border and would prefer to have their neighbors to the East serve as independent buffers between themselves and the USSR.

11. In addition to resisting Soviet hegemony, Yugoslavia also wishes to avoid too close association with the West. Yugoslavia probably hopes that such a course will (a) avoid the dangers to the maintenance of Communist rule in Yugoslavia which might result from swinging too far to the West; (b) promote its influence in world affairs by permitting closer ties with such countries as India, Ceylon and Indonesia; (c) improve its posture for influencing developments in the satellites, which can be done better as an independent Communist state not too closely associated with the Western powers; and (d) contribute to its efforts to reduce the dangers of a nuclear war between the United States and the USSR which the Yugoslavs believe would spell disaster to Yugoslavia and the Tito regime.

12. The top Yugoslav leadership, under Tito, has been cohesive and united in its determination to pursue an independent course. Although efforts toward rapprochement with the USSR in 1957 apparently caused some uneasiness among Party leaders, who feared that Yugoslav national interests might thus be injured and independence unwittingly compromised, their attitude appeared to be more apprehensive than disaffected. Among the Yugoslav people, the great majority of whom are anti-Communist, there appeared to be some anxiety lest Tito’s maneuvers lead to a tougher line at home and a serious falling out with the West, thus causing a sharp decline in Tito’s personal prestige as the man who resisted Nazi Germany, and defied Stalin. As long as Tito can prevent Soviet encroachment, however, and avoid a severe reduction of Western aid and support, he and his immediate colleagues will almost certainly retain their hold on the Party and the people. On the other hand if Western aid and support should be cut off, Party dissension would probably grow, public antagonism—now latent—would increase, and the Yugoslav economy would be subject to new strains. In this event the regime would probably be forced to rely more and more on repressive controls.

13. One of Yugoslavia’s ultimate objectives in world affairs is probably the establishment of a world order of independent Communist states. The immediate objectives of Yugoslav policy are probably (a) a relaxation of world tensions in order to relieve pressures on Yugoslavia from either the Soviet or the Western bloc, (b) strong Communist regimes in Eastern Europe whose relations with the USSR would be based on principles of equality, independence and non-interference, and (c) the establishment of conditions in Eastern Europe and elsewhere which will enable Yugoslavia to exert an effective influence.
U.S. Interest in Yugoslavia

14. U.S. policy in support of the maintenance of Yugoslavia’s independence constitutes an integral part of the broader U.S. policy which has as its objective the eventual attainment of complete national independence by all of the Eastern European satellites. The example of Yugoslavia, which has successfully maintained its independence of Soviet domination, stands as a constant reminder to the satellite regimes, serving as a pressure point both on the leaders of these regimes and on the leadership of the USSR. Moreover, it appears that Yugoslavia has encouraged certain leaders in the satellites to seek greater independence from Moscow. It is difficult to assess fully Yugoslavia’s potential for influencing satellite leaders; but in view of Yugoslavia’s known efforts in this direction, notably in the Polish and Hungarian events of 1956, it is in the U.S. interest to exploit Yugoslavia’s role in Eastern Europe, so far as it tends to advance U.S. objectives.

15. U.S. aid has well served the minimum U.S. objective of keeping Yugoslavia independent of the Soviet bloc. However, a more far-reaching objective—tying Yugoslavia into the Western defense system and ensuring its effective contribution to Free World power in case of war in Europe—has not been achieved. In case of general war, Yugoslavia will probably remain neutral as long as the situation permits, and Yugoslav forces will be used as the Yugoslav leadership deems appropriate to promote national interest and not necessarily in support of NATO. It would probably refuse permission for foreign troops to pass over its soil during any war in which Yugoslavia remains a non-belligerent. Should the Soviet Union overreach itself, however, or should some new crisis arise comparable to the Korean War or the Hungarian uprising, Yugoslavia may again find itself in serious disagreement with the Soviet Union.

Objectives

Short-Term Objectives

16. An independent Yugoslavia outside the Soviet Bloc, capable of withstanding Soviet political and economic pressures, not actively engaged in furthering Soviet Communist imperialism, and with a potential for weakening the monolithic front and internal cohesiveness of the Soviet Bloc.

17. Without jeopardizing the above objectives, reorientation of the Tito regime in the direction of political and economic liberalization and closer Yugoslav ties with the West in general and Western Europe in particular.
Long-Term Objective

18. Eventual fulfillment of the right of the Yugoslav people to live under a government of their own choosing, which maintains peaceful and stable relations with neighboring states, and participates fully in the Free World community.

Major Policy Guidance

19. Encourage the Yugoslav Government and people to continue to stand firmly for maintenance of Yugoslavia's independence in the face of Soviet pressures or blandishments.

20. Use Yugoslavia's position as an independent Communist state in Eastern Europe to promote the weakening of the monolithic front and internal cohesiveness of the Soviet Bloc.

21. Furnish economic and technical assistance to Yugoslavia in the minimum amounts needed for either or both of the following primary purposes:

   a. To encourage Yugoslavia to pursue policies which will contribute to the attainment of U.S. objectives.
   b. To assist Yugoslavia in avoiding undue economic dependence on the Soviet Bloc.

To the extent possible without prejudicing the above primary purposes, such assistance should also attempt to influence Yugoslavia to give greater play to free economic forces within Yugoslavia. In any event, in extending assistance the United States should avoid actions which could be interpreted as unreserved endorsement of the Tito regime on the one hand or which, on the other hand, would encourage attempts to overthrow that regime by violence.

22. Develop closer cultural ties between Yugoslavia and the nations of the Free World, particularly those of Western Europe. Seek to establish both officially and privately sponsored programs for an expanded exchange of U.S. and Yugoslav students, intellectual leaders, and private individuals. In ways consistent with the internal security of the United States, seek to expedite procedures to effect entry of suitable Yugoslav non-immigrants into the United States. As the United States expands exchange with the USSR (e.g., the U.S.-USSR cultural exchanges agreement), avoid creating the impression that the United States is losing interest in developing such ties with Yugoslavia.

23. Increase contacts with government and party officials in Yugoslavia, including high-level officials, and encourage mutual visits, in order to counteract the effect of extensive Yugoslav exchanges with the Soviet Union.

24. a. Continue to permit the training of limited numbers of Yugoslav military personnel on a grant or reimbursable basis as appropriate.
b. Continue to permit the Yugoslavs to purchase [or obtain on a grant basis in appropriate cases] such U.S. military equipment and supplies as may be needed to avoid dependence on the Soviet Bloc, as long as satisfactory U.S.-Yugoslav political relations continue to exist.

c. If Yugoslavia obtains sizeable amounts of Soviet Bloc arms or enters into licensing agreement for the extensive manufacture of Soviet Bloc arms, or accepts substantial Soviet Bloc military assistance, reexamine U.S. programs affecting Yugoslavia.

25. Recognizing that the Balkan Pact is dormant, encourage the development of closer Yugoslav relations with Greece and Turkey in economic, cultural and related fields of activity as a means of weakening Soviet power in the Balkans.

26. Consider Yugoslavia on the same basis as free European nations in evaluating Yugoslav requests for U.S. export licenses so long as Yugoslavia's export control practices are generally consistent with the objectives of the multilateral trade controls imposed against the Soviet Bloc.

27. Utilize opportunities for cooperation in the unclassified, peaceful uses of atomic energy, including the training in the United States of Yugoslav scientists in non-sensitive fields. Give those U.S. departments and agencies with export control responsibilities discretionary authority as regards the licensing for export to Yugoslavia of reasonable quantities of materials and equipment obviously intended for:

a. Basic research and instruction in the atomic energy field (including cooperation under any eventually concluded agreement for U.S. assistance in furnishing Yugoslavia with a research reactor and fissile materials therefor, and related laboratory equipment).

b. Source material (e.g., uranium) exploration.

c. Medical or normal industrial use.

28. Direct information policy toward building Yugoslavia's will to combat Soviet encroachment and to encourage ties to the West while:

a. Avoiding endorsement of the internal policies of the Tito regime and taking account of the Yugoslav people's hope for eventual attainment of greater political and economic freedom.

b. Avoiding antagonizing the Tito regime to the point of jeopardizing realization of our immediate objectives.

[1 paragraph (13 lines of source text) and footnote (4 lines of source text) not declassified]

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3 JCS-ODM proposal. [Footnote and brackets in the source text.]
121. Despatch From the Embassy in Yugoslavia to the Department of State

No. 436 Belgrade, March 10, 1958.

SUBJECT

Tito’s Internal Problems and the Progressive Limitation of his Freedom of Action
Externally: Attack on NATO

Two recent major developments seem to point convincingly to a certain sterility in Yugoslavia’s internal affairs as well as in its foreign policy: the vigor of the chastisement given all levels of the “Party”, from the lowest cell to the “center” by the recent “letter” from the Executive Committee of the Central Committee (i.e., the Politburo);¹ and the urgent although somewhat empty efforts Tito is making to reinstitute himself into the councils of the great, via the Summit Conference or otherwise. The first attests the fact, more than once commented on to the Department, that all is far from well with the political regime of present-day Yugoslavia. The second reflects the restricted area for maneuver into which Tito has led himself by his foreign policy actions of the past year, as well as the very real need which he feels to assert himself in the foreign field, not only in the service of his ego, but more significantly in consequence of the difficulties of his regime at home.

The inner implications, insofar as we can see them, of the Party Letter have already been the subject of some comment from the Embassy, and will be the subject of further analysis and reportage (Embassy despatch no. 428, March 6).² For the purposes of the present discussion it is sufficient to point out that while Tito and company may have had an eye on the desirability of convincing the Kremlin and their other colleagues to the East of the orthodoxy of the Yugoslav communist creed by raising the usual party war cries against the “petit-bourgeoisie”, the abuses of which the letter complains are real enough in Yugoslavia to warrant the Party’s serious concern. Abuses—“shortcomings” and “negative tendencies”, the Party would call them—exist not only within the party but within the entire governmental and administrative frame-

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¹ This February 12 circular letter attacked local party leaders and industrial managers for corruption. The text was published in the Central Committee weekly newspaper Kommunist on February 28.

² Despatch 428 transmitted the text of the February 12 circular letter cited in footnote 1 above. (Department of State, Central Files, 768.00/3–658)
work, and their results are seen not alone in weakened discipline within the party but also in popular dissatisfaction. There was some wonder, at the time, that Tito devoted so much of his New Year’s message (Embassy despatch no. 328, January 15)\(^3\) to the “justified” complaints of the masses: this was perhaps dispelled to some degree by knowledge of the events of Trbovlje (Embassy telegram no. 1137, January 28).\(^4\) The rather ludicrous lengths to which the party’s authorities have since gone (Embassy despatch no. 366, February 4)\(^5\) in their efforts to placate the aggrieved workers of that mining area have only confirmed Western observers in the conviction that the regime’s concern is at least as real as it is apparent. If one could read the minds of the top leadership, the Embassy suspects that one might even find that the regime’s disquiet goes as far back as the Polish “October” and the Hungarian revolution,\(^6\) when communists the world over discovered that hungry tummies and repressed spirits make an explosive mixture. While Yugoslav tummies were and are perhaps less abused than those in Hungary and Poland, the same essential ingredients of unrest are present—and there is considerable merit in the contention advanced by some that there is more intellectual freedom today in Poland than in Yugoslavia. Be that as it may, there is little question in the Embassy’s view that there is ample justification, on the internal scene, for the party to come out with the stinging rebuke and imminent threat which the “letter” in fact represents. Unlike the Djilas trial (Embassy telegram no. 593, October 4, 1957)\(^7\) (and perhaps also the Chetnik trial (Embassy telegram no. 1207, February 17)\(^8\) although this is more doubtful), no convincing case can be made that the regime was seeking, in releasing the letter, primarily to serve purposes basically external to the Yugoslav scene.

As regards Tito’s need for some successful foreign gambit, it remains a truisum that such support as Tito has enjoyed from the non-communist Yugoslav masses originally flowed from his defiance of the Soviet Union. Since “rapprochement” commenced in 1953, however,

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\(^3\) Despatch 328 reported on Tito’s New Year’s Eve statement and noted his stress on economic discontent in Yugoslavia. (Ibid., 768.21/1-1558)

\(^4\) Telegram 1137 reported on and analyzed Tito’s reaction to the strike at Trbovlje by 4,000 workers protesting wage reductions. (Ibid., 868.06/1-2858)

\(^5\) Despatch 366 reported increased Yugoslav Government concern with labor unrest. (Ibid., 868.06/2-458)

\(^6\) Reference is to the strikes that led to the installation of the Gomulka regime in Poland in October 1956 and to the Hungarian revolution of October–November 1956.

\(^7\) Telegram 593 reported on the exclusion of some Western reporters from the courtroom on the first day of the Djilas trial. (Ibid., 768.00/10-457)

\(^8\) Telegram 1207 reported on Yugoslav press rebuttals of Western socialist criticism of the trial of the “Chetnik traitors,” a group of older socialist leaders who were critical of the Tito regime. (Ibid., 768.00/2-1758)
this type of support has had little to feed on other than pride in Tito’s accomplishments in “putting Yugoslavia on the map”, maintaining its independence, and winning a voice in the world’s councils. There can be no doubt, in the Embassy’s observation, that this has been a real consideration to the Yugoslavs, both pro and anti-regime. Tito’s self-reversal on Hungary, however (and a case could be made that the date should be projected back to the Belgrade and Moscow “declaration”), seems to have marked a turning point: while there are those Yugoslavs who will maintain that Tito is being “led” by a small group of Intriguers, there is more and more concern among both regime and non-regime Yugoslavs as to Tito’s ability to maintain Yugoslavia’s independence from the “socialist camp”, whether he wishes to do so or not. Every successive position Tito has taken has on the one hand limited his freedom of action in the international field, and on the other increased suspicion and distrust on the part of those Yugoslavs competent to observe and to draw conclusions as to their own future. His assault on the Baghdad Pact, his support of Nasser, his attack on the Eisenhower Doctrine, his step by step but inexorable support of the Soviet position on disarmament, his miscalculation on recognition of East Germany, his endorsement of the Red Chinese, the North Koreans and the Djakarta-Indonesians have all represented an erosion of his freedom to adopt an independent stand on international problems. The regime’s contention that these positions have been arrived at “on their merits” has hardly proven convincing so far as the West is concerned, and even less so in the view of all but the most dedicated of his own people. To this the ever increasing flow of refugees across the Yugoslav borders with the West—be they “economic” refugees or otherwise in the bureaucratic jargon of the West—is more than eloquent testimony. Tito’s only weapon to combat this development insofar as its internal ramifications are concerned, is to be able to point to positive Yugoslav actions in an even larger sphere. Today, the realm of disarmament and the reduction of East-West tensions seems to be the only one left open to him.

In previous analyses of Yugoslavia’s position the Embassy, while reaffirming its conviction of the will and intent of the Yugoslav regime

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9 Reference is to Tito’s initial support of the Nagy government during the Hungarian Revolution of 1956. After condemning the October 24 Soviet intervention, Tito subsequently condemned the revolution and defended the second Soviet intervention of November 2. In spite of the subsequent Soviet seizure of Imre Nagy, who had taken refuge in the Yugoslav Embassy in Budapest, Tito reached a rapprochement with the Kadar regime in Hungary.

10 Reference is to the joint declaration that concluded the May 26–June 2, 1955, visit of Khrushchev and Bulganin to Belgrade. The declaration outlined the principles of common agreement between the two Communist states and the attitudes of the two governments toward international problems and listed measures to normalize relations between them.
to maintain its independence, has expressed some concern that by entrapment or otherwise Tito and company might be maneuvered into a position from which their exercise of the essential attributes of independence might be severely curtailed. The Embassy does not wish at this juncture to suggest that this has become the case, but merely to suggest that the question is far from academic. It will be recalled that before "rapprochement" and "normalization between the USSR and Yugoslavia", the Yugoslavs publicly proclaimed that NATO was "justified" (many will still privately admit that originally it was justified). Progressively, as the process has developed, however, the regime reached the point that it saw NATO and the Warsaw Pact as "twin evils". In this connection, the Sulzberger interview with Tito of February 28 (Embassy despatch no. 429, March 6)\textsuperscript{11} seems important in two respects: its endorsement of the aims and even the methods (except "interference in internal affairs"—but \textit{vide} the Yugoslav position on Algeria) of "international communism", but even more importantly in the present context its direct attack against a NATO member for alleged activities taken pursuant to NATO decisions.

Tito's remark to Sulzberger about rocket bases in Italy seems to have been tossed out rather glibly: it is interesting to speculate whether Mates and perhaps Vejvoda were under instructions to make similar remarks in their démarches in London and Washington (London telegram no. 5188 to Department, March 4 and Department telegram no. 749, March 6).\textsuperscript{12} The present Yugoslav regime is adept at tossing out "sleepers" to which at some later date it can point with the hackneyed comment, "We told you so". It is certainly clear from recent Yugoslav actions that the regime wishes desperately to be invited to the "Summit Conference", which it confidently believes is in the offing. It is not too far fetched to conjecture that the regime may believe that, by interjecting its "rights" as a "neutral" into the East-West dispute over rockets and bases, and by directly involving a NATO member in the sideshow, it might win a ticket to the Big Top. Purely circumstantial evidence that the Yugoslavs may intend to endeavor to parlay the issue of neutral rights as regards air space into a major issue, and that the scapegoat may

\textsuperscript{11}Not printed. (Department of State, Central Files, 768.11/3-658) Sulzberger published the notes of his conversation with Tito in three articles that appeared in the March 3, 5, and 8 issues of \textit{The New York Times}. The notes are printed in Sulzberger, \textit{The Last of the Giants} (New York, 1970), pp. 451-454.

\textsuperscript{12}Telegram 5188 from London reported on Yugoslav efforts to promote the relaxation of East-West tensions in discussions with officials of the British Foreign Office. (Department of State, Central Files, 611.61/3-458) Telegram 749 to Belgrade reported on March 5 discussions between Dulles and Ambassador Mates in which the Yugoslav Government encouraged the United States to respond favorably to Soviet overtures for a summit conference. (\textit{Ibid.}, 396.1/3-658)
prove to be Italy, might be found in the fact that in a number of public utterances recently the Yugoslavs have gone out of their way to applaud the excellence of Italo-Yugoslav relations subsequent to the “London Memorandum” (Embassy despatch no. 417, February 26).\textsuperscript{13} Admittedly, most of these have been in “election” speeches in Slovenia and Croatia, but even so, they have reflected a warmth not usual in authoritative Yugoslav statements. While the Italian Embassy ascribes little importance to these developments, it should be noted that Yugoslav “election” speeches in Macedonia fail to reflect a similar warmth toward Greece, as regards which the Yugoslav Macedonians have an interest fully as intimate as do the Slovenes and Croats vis-à-vis Italy.

To point to the internal motivation of Tito’s efforts to recreate an international role for himself is not necessarily to deprecate the possible sincerity of his views as regards the East-West problem. Tito is described by Soldatic (to an Italian diplomat) as being profoundly depressed by the possibility that a Summit Conference will not be held, or that if held it might fail. He is quoted as saying, “God (sic) knows what form the cold war might then take”, a quotation which, though perhaps inaccurate per se, the Embassy is inclined to accept as a faithful reflection of his probable views. He is no doubt as sincerely concerned to maintain the peace and the balance of power without which he would inevitably fall as he obviously is to provide his people with circuses. Nonetheless, the “initiatives” to which Tito feels compelled by internal considerations, if also by conviction, again serve to erode the little freedom of action in the field of foreign affairs which now remains open to him. Now that he is publicly committed to the contention that NATO threatens “neutral rights”, he will be hard pressed to equate that organization with the Warsaw Pact, so many members of which are so anxious to disavow the use, stationing and employment of rocket and nuclear weapons. While, again, nothing has occurred to shake the Embassy’s belief that Tito and his colleagues wish and intend to maintain their independence, it would seem that he has been led by the compulsions operating upon him to a further step curtailing his ability to exercise the prerogatives and essential attributes of that independence.

For the Ambassador:

\textbf{Oliver M. Marcy}

\textit{First Secretary of Embassy}

\textsuperscript{13} Despatch 417 commented on the steady improvement in relations between Italy and Yugoslavia since the 1954 London agreement on Trieste signed by Yugoslavia, Italy, the United Kingdom, and the United States. (\textit{Ibid.}, 665.68/2–2658)
122. Editorial Note

At the 362d meeting of the National Security Council on April 14, NSC 5805 (Document 120) was discussed and revised to delete the bracketed phrase in paragraph 24–b. The memorandum of discussion at the NSC meeting reads: "Mr. Patterson replied that ODM would not press for the inclusion of the bracketed phrase at this time, although ODM did think that this suggestion provided a desirable flexibility in the provision of future military assistance to Yugoslavia. It was possible that from time to time we might wish to give Yugoslavia grant military assistance in order to capitalize on the military assistance which had already been sent to that country.

"General Cutler pointed out that the Joint Chiefs of Staff had agreed with the majority of the Planning Board in wishing to delete the proposal for grant military assistance to Yugoslavia. Secretary Dulles noted that his own representative on the Planning Board had joined the majority in favoring elimination of the proposal to provide any grant military aid to Yugoslavia. He said that he personally had no very strong feeling one way or another, although, of course, if the provision of grant aid to Yugoslavia assumed a significant volume, that would be another matter. General Cutler then argued that the Yugoslavs had rejected any further military assistance from the United States. Secretary Dulles felt that the word 'rejected' was not quite fair to the Yugoslavs. They were perfectly well aware, as they had been in the matter of the invitation to Tito to visit the United States, that the provision of military assistance to Yugoslavia was an embarrassment to the Administration in its relations with the Congress and with various groups in the United States. In a sense, therefore, Tito had actually got the Administration off the hook, rather than really wishing to reject any further military assistance. Secretary Dulles said that he was grateful for this action.

"After further discussion it was agreed to delete the bracketed phrase." (Memorandum of discussion; Eisenhower Library, Whitman File, NSC Records)

The revised statement of policy was approved by President Eisenhower as NSC 5805/1 on April 16. (Memorandum from Lay to the NSC, April 16; Department of State, S/NSC Files: Lot 62 D 1, NSC 5805) Because NSC 5805/1 was editorially revised in November 1960 (see Document 173), no copy has been found in Department of State files.
123. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, April 24, 1958, 5 p.m.

1447. Major significance of Tito’s April 22 speech to opening session of Seventh Party Congress appears to lie more in emphasis and presentation rather than actual substance of what he said. On latter score he seems to have revealed little of significance that was new, but rather to have merely restated, often in harsher and franker terms than have been heard since Tito–Khrushchev Rumanian meeting last August, known Yugoslav positions on international issues. On internal issues, he appeared confirm basic failure of LCY to have reached solutions to fundamental problems which have been emerging over past several years. Latter will be subject separate message.

1. Single most vital fact to emerge is of course that Yugoslavs have stuck to their guns on major ideological issues which divide them from “socialist camp.” While we have not yet seen full text of Rankovic April 23 speech, from excerpts we have seen, Tito’s presentation of those portions objectionable to Soviet bloc if not as strong as Rankovic’s were fully sufficient to prompt Soviet bloc walkout in itself. 1 (Soviet bloc “observers” as diplomats may have felt constrained not to offend Chief of State and thus have merely awaited next best opportunity, which would prove ironic consequence their refusal send “delegations” which would not have had such compunctions.) Reports from often well informed sources continue, however, that major Yugoslav attack is yet to come in Kardelj’s speech on draft program. 2

2. While Tito reasserted Yugoslav interpretations of Hungarian events 3 (which he could only anticipate would evoke violent Soviet reaction, and which Yugoslavs have found it possible to suppress on occasions in past when they have wished smooth out relations with USSR), impression remains much the same as that generated following Rumanian meeting with Khrushchev, i.e., that Tito is again offering USSR al-

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1 Rankovic accused the Soviet Union of intervening in Yugoslavia’s affairs and of “selling out” to Nazi Germany in the 1939 nonaggression pact. The last reference triggered a walkout by Eastern European Ambassadors.

2 Kardelj’s April 24 speech defended Yugoslavia’s ideology of socialist development and rejected Eastern European and Soviet Communist Party criticisms of the LCY program.

3 Tito condemned the initial Soviet invasion of Hungary (October 24, 1956) and, while later supporting the second intervention (November 2), held that Soviet failure to insist that the Hungarian Communists reform had radicalized the situation and created the anti-Communist revolution.
most complete support on all international issues in return for concessions on ideological level, both internal to Yugoslavia and in realm “relations between socialist states.”

3. Although cannot tell until we have full translation how many concessions offered in “amendments” to draft program Tito may have rescinded in consequence Soviet bloc rejection (Emb tel 1427) following appear to be major issues to which Soviets will take particular exception: page references are to JTS translation issue of April 23, being pouchcd.5

A. Patronizing tone in which, blaming Stalinism for Hungarian re-volt (which of course “exploited” by counter-revolution), he asserts “If we, Communists, allow counter-revolution to spread in a Socialist country, then we Communists are to blame since we permitted counter revolutionary forces to develop. Therefore it is wrong to give analyses of those crises starting from effects and not causes” (page 43).

B. Continued harping on guilt of Stalin, cult of personality, et cetera, in Soviet endeavors “subordinate Yugoslavia as a state to Stalin’s policy (page 20) and contention “socialism some kind of import commodity which could be developed along lines of stereotyped patterns, and could be formed on a single model, in other words imposing specific forms of Socialist development upon other countries” (page 42). Tito made none of remarks re Stalin’s saving graces and “real contributions” which have become customary within bloc since Twentieth Congress backfired on Khrushchev.

C. Insinuations of “hegemonistic” tendencies on part of USSR with which original draft program redolent do not appear in Tito text (deletion was one of concessions offered in amendments). However, failure of Tehran, Yalta and Potsdam conferences was mentioned (page 19), which also was deleted from draft program by amendments, and assertion made it “historical fact Stalin was one of protagonists of meet-ings dealing with destiny of other independent nations without their knowledge or approval” (page 20).

D. Unlike Rankovic, Tito did not raise spectre of Cominform in specific terms. However, he continually adverted to Belgrade and Mos
cow declarations and pointed to “bilateral relations” as proper formula to free “creative thought frustrated by previous forms of cooperation”. Because of this view regarding “cooperation among Communist parties and all progressive movements in world in general we could not sign declaration of twelve communist and workers’ parties of Socialist coun-
tries in Moscow” (page 48).

4Telegram 1427, April 20, reported on amendments to the draft program prepared for the Congress of the LCY. (Department of State, Central Files, 768.00/4-2058)

5Not found.
E. Without so stating, Tito referred to 1948 Cominform allegations that then Communist party Yugoslavia had submerged itself into “national front”, justified Yugoslav action at that time and in series of passages (pages 42, 45 and through 49) proceeded give again patronizing lecture on “internationalism” while defending UCY against allegations of “national communism”, “revisionism”, and by implication renewed charges that the UCY has betrayed the leading role reserved to it by proper interpretation of Marx and Lenin.

4. In general, Tito’s treatment of points which will be most offensive to west, and specifically US less harsh than that of draft program. They lie, of course, primarily in realm foreign policy and are again highly repetitive of known Yugoslav attitudes. Noteworthy, other than endless references to “aggressive circles in west” which waging “ideological war against countries of socialism” (page 38), and assertions that west “encircling” the USSR, were:

A. Equating of NATO and Warsaw Pact. Adopting middle ground between previous Yugoslav position (e.g., at Sixth Congress)\(^6\) that NATO “was justified” by Soviet (Stalinist) policies, and implication in draft program for this Congress that NATO aggressive and “justified” the Warsaw Pact, Tito argued that west, specifically America, “justified creation of NATO and of strategic bases precisely with this policy of force and rigidity of Stalin’s” (page 23), and that NATO had “inevitably to result in creation of Warsaw defense pact of eastern countries as counterbalance” (page 21).

B. Continued carping at western colonial policies, reiteration of assertion of western pressure on Syria last year and efforts overthrow Nasser (page 28), contention that “intrigues and interference” “certain western circles” in Indonesia, resulted in civil war designed either destroy Indonesia or force it join SEATO (page 29). “Certain American papers” specifically involved in this effort.

C. Interminable references to “international workers’ movement” and presumably purposefully ambiguous allusions to tactics it should employ: e.g., “internationalism above all commits the working class to develop in its own country all forms of revolutionary activities in those cases where the working class has not yet assumed power, and in those countries where power is already in working class hands, it should endeavor to develop all forms of creative efforts for Socialist development” (page 45). Comment: Perhaps in effort offset or head off malicious interpretation of foregoing, in midst of portion of speech identified as dealing with normalization of relations with Soviet bloc Tito noted that World War II had led to creation Socialist states in Eastern Europe and

\(^6\)November 2-7, 1952.
Asia and continued "but it would be wrong to believe on basis of those facts that war is a stimulative and useful factor which is likely to bring about social changes in world". Denying creation Socialist states justifies war, Tito added, "I have deemed it necessary to stress this point because there are people who believe that only war can serve to settle the question of social changes, just as there are people who believe that only war can enable them to achieve various aims, in other words to enable one side to overpower the other" (page 42), the latter of course being stylized Yugoslav allusion to west’s "policy of strength."

Rankin

124. Memorandum From the Deputy Administrator of the Office of Refugee and Migration Affairs (McCollum) to the Secretary to the Cabinet (Rabb)


SUBJECT

U.S. Assistance to Yugoslav Escapees

United States policy respecting assistance to Yugoslav national escapees is contained in NSC 5706/2 (U.S. Policy on Defectors, Escapees and Refugees from Communist Areas) adopted in March 1957¹ which inter alia provided for U.S. assistance in the interest of insuring asylum but restricted expenditure for the group to approximately the current rate (interpreted as $1.2 million U.S. Escapee Program funds per annum). The greatly increased number of Yugoslav refugees seeking asylum in Italy and Austria during the past eighteen months (averaging nearly 2000 per month in 1957) with a concomitant increase in the rate of resettlement of Yugoslavs resulted in the virtual exhaustion of the $1.2 million by September 1957. On September 12, 1957, in response to a State Department appeal, the National Security Council decided to raise the ceiling of expenditure for 1957 from $1.2 million to $1.55 million and

requested the Department to undertake a survey of the refugee problem. This survey confirmed that Yugoslav refugees were escaping faster than they could be resettled and drew attention to the impact of these increased numbers upon the economies of Italy and Austria pointing out that the governments of these countries regarded the Yugoslav refugees as a problem of the Free World and that unless further outside assistance were forthcoming they would be forced to be more restrictive in their asylum policies.

On December 24, 1957 the NSC (Action #1837) noted the decision of the Operations Coordinating Board on December 11, 1957 that, although the facts did not justify a request to NSC for a review of policy, it would be desirable to give commodity assistance under Title II of PL 480 to the countries of first asylum receiving increased numbers of refugees from Yugoslavia and that some of the commodities supplied the recipient countries might be sold by them to provide funds for the transportation and resettlement of refugees as well as for their care and maintenance. The OCB also noted that the State Department would report to the Board should later developments show that the assistance made available in this matter is inadequate.

Discussions with the Governments of Italy and Austria to implement the OCB decision have resulted in an offer to Italy of $2.0 million for direct feeding of Yugoslav refugees in that country. A proposal made by the Austrian Government for a $4.0 million Title II program of which $2.0 million would be for direct feeding and $2.0 million for sales, the proceeds of which to be used for Yugoslav refugees, has not proved feasible owing to the market situation in that country. Sale of surplus commodities would inevitably displace sales that otherwise would be made through normal trade channels. Further negotiation has indicated that not more than $1.0 million in commodities could be used in direct feeding and the Embassy in Vienna has been authorized to offer a $1.0 million program on this basis. It is considered highly unlikely that this will meet the need of the situation. Meanwhile, resettlement assistance continues to be extended to Yugoslav refugees in Austria and Italy through the U.S. Escapee Program under the $1.2 million ceiling. It now appears that these funds for 1958 will be exhausted by midsummer unless measures are taken to reduce expenditure for resettlement and transportation. This would have the unfortunate effect of reducing

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2 Documentation on the Department of State's appeal and subsequent discussions within the NSC and OCB is in Department of State, OCB Files: Lot 62 D 430, Escapee Program.
3 NSC Action No. 1837 recorded actions taken at the December 23, 1957, meeting of the National Security Council. A copy is ibid., S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council.
emigration that might otherwise take place thereby increasing the di-

dimensions of the problem in Austria and Italy.

This matter is under study in connection with a semi-annual pro-
gress report on NSC 5706/2 due for NSC consideration in June. One so-
lution being considered would be for the United States to provide
overseas transportation to Yugoslavs by increasing the United States
per capita contribution to the Intergovernmental Committee for Euro-
pean Migration from the FY 1958 appropriation for this purpose. This
would reduce the demands on the limited U.S. Escapee Program funds
which could be concentrated on resettlement assistance as opposed to
transportation costs and would permit the movement of more Yugo-
slavs out of Europe.

Robert S. McCollum

125. Telegram From the Embassy in Yugoslavia to the Department
of State

Belgrade, May 19, 1958, 5 p.m.

1552. 1. There is little question in our minds of sincerity of Yugo-
slav resentment at provisions in US legislation requiring continual re-
view of Yugoslav policies before they are eligible for US assistance, and
that such provision (Deptel 927)\(^1\) will strengthen sentiment within re-
gime to forego aid when their “material possibilities” are sufficient to
permit them to do so. Issue is more form than substance, of course, since
Yugoslavs realistically recognize (and have directly stated more than
once) that US must consult its own interests in proffering assistance,
hence that Yugoslav performance is in fact continually under review.
Problem is one of prestige and pride, that Yugoslavia answerable to no
one for its actions, plus propaganda issue as between Yugoslavia and
Soviet bloc. Presidential determination under House amendment

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Source: Department of State, Central Files, 768.5–MSP/5–1958. Confidential.

\(^1\) Telegram 927, May 17, requested the Embassy’s analysis of the effects on U.S.-
Yugoslav relations of passage of an amended version of the Mutual Security Act requiring
the President to report on the Independence of Yugoslavia prior to the release of aid to it.
(Ibid., 768.5–MSP/5–1758)
would readily lend itself to exploitation by Soviet bloc as further evidence of thesis in Pravda editorial, namely that US aid is designed to put countries receiving it into position of dependence on US and that that is in fact what has happened in Yugoslavia.

2. Regards "material possibilities", Yugoslavs could probably get along without US assistance now, but only at considerable sacrifice to standard of living and attainment its investment and other economic and social objectives. This would be extremely difficult for regime at this particular time, for two main reasons. First, as evidenced by major campaign against economic offenses and abuses, as well as efforts imbue trade unions with new life and responsibilities regarding welfare and standard of living of workers, latter is important political issue internally at present time among other things as direct result of Trbovlje strike. While regime could probably successfully ask masses to pull in their belts in defiance Soviet economic pressure, it would not have same capability were economic stringency to arise as direct or indirect result of pro-Soviet actions on part of regime. Refusal of US aid would be so interpreted by masses. Secondly, given present crisis in Yugoslav-Soviet relations, in face of which many Yugoslavs are still fearful regime may reach compromise and "go back" east, it would be most difficult politically for regime to lose western economic assistance. West's willingness continue give Tito assistance is best proof he has that his policies have not alienated west, and his willingness accept it is best proof he has that he has not succumbed to east's blandishment.

3. In light foregoing seems clear regime will not seek excuse to refuse aid, and that it would probably be prepared continue accept US aid despite inclusion of provision in Mutual Security Act. However, there is no question but that such provision would make acceptance aid highly distasteful, tend to sour Yugoslavs on US and stimulate them at every opportunity to take foreign policy positions which might be contrary to those of US and thus could be pointed to as evidence Yugoslavia's independence of US despite aid. Hence in these ways provision injures US-Yugoslav relations and further it gives propaganda weapon to Soviet bloc and thus weakens Yugoslav posture in relation bloc. For these reasons Embassy and USOM concur decision executive branch oppose amendment. While we would not wish press for deletion of provision if there is no chance being successful so that only result would be merely stir up publicity to no useful end except Russians, we believe that so long as there is possibility getting rid provision, we should exert efforts do so.

Rankin

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2 See footnote 4, Document 121.
126. Memorandum of Conversation


SUBJECT
Expression of concern by Yugoslav Ambassador regarding House-approved version of Section 143 of Mutual Security Act

PARTICIPANTS
The Secretary
The Yugoslav Ambassador
Robert M. McKind (EE)

During the course of his call on the Secretary this afternoon, Ambassador Mates referred to the recent action of the House of Representatives restoring the provision in Section 143 of the Mutual Security Act which would require the President to make a finding, within 90 days of enactment, with respect to Yugoslavia’s independence. Emphasizing that his Government took a most serious view of this provision as a prerequisite for further Mutual Security assistance, the Ambassador stated that retention of such a requirement would have a very harmful effect upon US-Yugoslav relations and would be extremely offensive to Yugoslav sensibilities. The House action was especially unfortunate in the view of his Government, coming as it did at a time when Yugoslavia was under severe political and propaganda attack from the Soviet bloc countries. The Ambassador said that Yugoslavia had stood firm against these attacks and was determined to maintain its independent position at all costs. He added, however, that if Section 143, as approved by the House, were finally adopted by the Congress, such action would only seriously handicap Yugoslavia in its defense of its independence and that, in these circumstances, he was convinced that his Government would be forced to forego further Mutual Security assistance, just as it had previously decided to give up highly-valued military assistance.

Ambassador Mates said he clearly understood that, under the US system of government, the Executive Branch could not dictate to the

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1 Section 143 of the Mutual Security Act required the President to suspend aid to Yugoslavia if the Tito government failed to maintain any of three criteria: 1) independence from the Soviet Union; 2) nonparticipation in Communist plans of conquest; and 3) if aid to Yugoslavia continued to be in the national security interests of the United States. The President was instructed to monitor continuously the Yugoslav situation and keep Congress informed. For text of Section 143 of the Mutual Security Act of 1954 as amended, approved August 14, 1957, see 71 Stat. 355. The Mutual Security Act of 1958, approved June 30, 1958, maintained the provisions of Section 143 of the 1957 bill. For text of the 1958 version, see 72 Stat. 261.
Legislative Branch. He hoped, however, that the Department would exert every appropriate effort to persuade Congressional leaders against the retention of the House-approved version of Section 143.

In responding to the Ambassador’s remarks, the Secretary stated that the Administration was itself opposed to the provisions adopted by the House and would seek their deletion in the course of the further legislative process. He indicated that, while he was not in a position to predict the final outcome, he was hopeful that the Administration’s view would prevail. The Secretary explained that, as a matter of effective tactics, the Department’s efforts in this regard would be focused upon the Senate Foreign Relations Committee’s consideration of the legislation. If the Senate approved legislation omitting the requirement inserted by the House, the way would then be open in final Senate-House conference to endeavor to persuade the House conferees to accept the Senate version of the law.

Ambassador Mates thanked the Secretary for his statement of the Department’s attitude on this question and said that he would report it at once to his Government.

127. Memorandum of Conversation


Subject
US-Yugoslav Economic Relations

Participants
Mr. Franc Primozic, Minister of the Yugoslav Embassy
Mr. Vasilije Milovanovic, Economic Counselor of Yugoslav Embassy
Mr. Foy D. Kohler, EUR
Mr. Robert B. Hill, EE

Mr. Primozic called with Mr. Milovanovic to introduce Mr. Milovanovic to Mr. Kohler and to raise informally the general question of US-Yugoslav economic relations. Mr. Milovanovic, he said, is about

Source: Department of State, Central Files, 611.68/6-58. Official Use Only. Drafted by Hill.
to return to Belgrade for brief consultation. Mr. Primozić asserted that his government is interested in expanding economic relations with the US and, although he had no intention of raising any specific question at this time, he would appreciate any comment which Mr. Kohler might care to offer.

Mr. Kohler said he would like first to raise a few questions. He had been reading a number of reports about Yugoslavia recently, he said, and had been particularly interested in the Soviet postponement of credits to Yugoslavia.¹ Was his understanding correct that these credits applied solely to specific economic development projects? Mr. Milovanović said this was correct, that of $285 million promised by the Soviets approximately $110 million were for two fertilizer plants and some mining development, with the remaining $175 million earmarked for an aluminum project. Mr. Kohler said he understood that the fertilizer and mining projects were already fairly well advanced while the aluminum project was still in its very early stages. Mr. Milovanović confirmed this understanding and explained that his country was especially interested at this time in developing its agriculture and hence placed much emphasis on fertilizer production. Agriculture, he said was perhaps the most important field of activity at present in Yugoslavia. Mr. Kohler then asked if Yugoslav trade with Italy, West Germany, France and the United Kingdom was proceeding normally, and expressed satisfaction when both Mr. Primozić and Mr. Milovanović assured him that it was. Mr. Primozić noted that, although Yugoslav political ties with West Germany had been broken the economic ties continued.²

Referring to Mr. Primozić’s opening remarks about economic relations, Mr. Kohler proceeded then to point out that any economic assistance which the US might extend has, of course, certain political objectives. He noted that we appreciate Yugoslavia’s desire for aid without strings but said he was sure Mr. Primozić understood that our aid depended on Yugoslavia maintaining its independence. So long as Yugoslavia did so he felt certain that we could continue to enjoy the kind of economic relations we have had in the past. Turning then to the subject of US Congressional activity Mr. Kohler said that we have, of course, encountered some difficulty recently particularly with the so-called Kennedy Amendment.³ In fact, of course, the dispute over the Kennedy

¹ A 5-year suspension of credits by the Soviet Union was announced on May 28.
² The Federal Republic of Germany broke diplomatic relations with Yugoslavia on October 18, 1957, following the recognition by the Yugoslav Government of the German Democratic Republic on October 15.
³ An amendment by Senator John F. Kennedy to the Foreign Aid Appropriations Act of 1959 proposed that the President be allowed to grant aid to any Communist nation except the Soviet Union, the People’s Republic of China, or North Korea. The amendment was defeated in a Senate vote on June 4.
Amendment was more or less academic since other arrangements had been worked out for Yugoslavia and Poland and no other countries would at present be affected. He wished to emphasize, however, that our troubles are not yet ended, particularly since the MSA appropriations bill has not yet passed the Congress. He did not wish to be misleading with respect to the volume of US assistance which might be available in the future.

Mr. Kohler pointed out further that we hope this year to increase the money available to the Development Loan Fund (DLF) and he suggested this would be something which Mr. Primožic might watch closely. There is, of course, considerable competition for the relatively limited resources of the DLF and the Yugoslavs might therefore be well advised to examine the projects they have already submitted with a view to assigning priorities. The Yugoslav Government could be assured that we would consider its projects sympathetically, but it is not possible at this time to give any indication of the magnitude of any loans which might eventually be made. Speaking purely in speculative terms Mr. Kohler thought that, while the Yugoslav aluminum project, if submitted, probably would not receive favorable consideration, the prospects for helping in completing other projects, particularly those on which a good start has already been made, seemed reasonable. In this connection the US would be interested in the extent to which Yugoslavia might be able to supplement US help through West European suppliers in West Germany, Italy, the UK and France.

Mr. Primožic expressed understanding of Mr. Kohler’s remarks and said that Yugoslav economic experts are now engaged in attempting to analyze the effect of the suspension of Soviet credits, and he repeated his remark that he and Mr. Milovanovic had not called with any specific request but had merely wished to emphasize Yugoslavia’s desire for broadened economic relations. Mr. Milovanovic said he was interested particularly in possibilities of exploiting further the Eximbanks, pointing out that Yugoslavia had borrowed $55 million some time ago when its exports to the US were only $15 million; since then exports have risen to $43 million with possibility of further increase, thus improving Yugoslavia’s ability to repay dollar loans. Mr. Kohler replied that while he did not exclude the possibility of Eximbank loans there were certain gradients in this respect, ranging from the relatively “soft” loans of the DLF through the Eximbank and the IBRD, to the relatively “hard” loans of US commercial banks. The matter of loans also raises the question of what is called international credit worthiness, he said, which is in turn related to the economic viability of the loan recipient and, of course, its international debt position.

As they rose to leave after again expressing appreciation for Mr. Kohler’s remarks Mr. Primožic said he would like to refer briefly to an
earlier conversation he had had with Mr. Kohler in which they discussed Mr. O'Shaughnessy's talks with Mr. Rukavina in Belgrade. Perhaps, he said, there had been some misunderstanding and he was perfectly willing to say no more about it. He would like to note, however, that at this time particularly a country might feel it could take advantage of Yugoslavia's situation to impose additional conditions on any assistance which it might extend. This would be, he said, wholly unacceptable to his Government and most unwise. Apparently satisfied that he had made his point Mr. Primozic and Mr. Milovanovic then took their leave without awaiting any comment from Mr. Kohler.

4 In a May 28 discussion with Kohler, Primozic stated that O'Shaughnessy had informed Yugoslav officials that the Feighan amendment to the Mutual Security Act, which toughened existing requirements of Section 143 and which the Yugoslav Government disliked, would probably be passed and the Yugoslav Government would "simply have to swallow it." Kohler denied that a difference of opinion existed between the Department and the Embassy in Belgrade on the undesirability of this amendment. A memorandum of Kohler's conversation with Primozic is in Department of State, Central Files, 768.5--MSP/5-2858. The Feighan amendment required the President to report to Congress on the independence of Yugoslavia prior to the release of mutual security aid to that nation. It was defeated.

128. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, June 20, 1958, 3 p.m.

1704. Rome for McSweeney, Vienna, Frankfort and Munich for PRU. Austrian Ambassador told me last evening Milutinovic "speaking personally" as is his wont, indicated Yugoslavs were beginning to be uneasy about possible military pressure on them. Two elements which Milutinovic mentioned to Austrian as contributory to this new concern

were: (1) Timing of Nagy execution announcement,¹ following other developments vis-à-vis Yugoslavia, suggests to Yugoslavs that they are [not?] faced with random ad hoc campaign but well-organized offensive with moves planned well in advance and (2) build-up of tension in Middle East with regard Lebanon, including possibility US intervention, and British military reinforcement of Cyprus.² In latter connection Yugoslavs naturally would think of British use of Cyprus and coincidence of 1956 attack on Suez and Soviet military intervention in Hungary.³

Other than unevaluated report received several weeks ago by Air Attaché that Yugoslavs were concerned at troop movements in Bulgaria, above is first report we have had of Yugoslav concern at possibility military pressure.

As Department aware, Mulotinovic is responsible regime official and we are prepared accept his remark as evidence that regime is at least thinking along these lines. Hitherto, as reported, Yugoslavs tended believe international situation such that Soviets would not feel able employ military tactics against Yugoslavia. Perhaps on one hand Yugoslavs now have had eyes opened to callousness of Khrushchev and company to world opinion, and also foreseen possible period of crisis such as surrounded Suez-Hungarian events which might permit Soviet adventure in Yugoslavia.

Rankin

¹ Former Hungarian Premier Imre Nagy fled to the Yugoslav Embassy on November 2, 1956, after the Soviet suppression of the Hungarian revolution. On November 22 Nagy left the Embassy under safe conduct by the regime of Janos Kadar. Nagy was later returned to Hungary and after a secret trial was executed on June 16, 1958. Nagy’s execution followed a series of attacks on the Yugoslav Communist Party for “revisionism,” that began when East European diplomats walked out of the April 22–26 Yugoslav Party Congress. The Soviet press launched a major attack on Yugoslav revisionism while the Chinese Party Congress condemned the Yugoslav Government in particularly harsh terms. Cultural exchanges between Yugoslavia and other Eastern European nations were canceled as was a scheduled visit to Belgrade of Soviet President Klement Voroshilov.

² A virtual civil war broke out in Lebanon in May between Christian and Moslem elements over the efforts of Camille Chamoun to secure a second term as President of Lebanon. The British had reinforced Cyprus to deal with a popular movement for that island’s independence that included widespread terrorism.

³ The British used Cyprus as a military staging area for their October 1956 invasion of Egypt in cooperation with France.
129. **Telegram From the Embassy in Yugoslavia to the Department of State**

Belgrade, June 20, 1958, 3 p.m.

1705. Belgrade’s 1704.\(^1\) Series recent developments and first evidence Yugoslav concern over possible Soviet or satellite military pressure if not military attack suggest parallel with developments beginning 1948.

While larger issues in terms US-UK and US-French relations are involved that can be seen from here, from our limited viewpoint there might well be advantage in picking up French suggestion (Paris telegram 6024 to Department)\(^2\) that consultation between interested western powers be initiated, perhaps along line of tripartite approach utilized in early 1950\(^3\) or even within NATO. Purpose in first instance would be coordination of western position increased economic assistance to Yugoslavia when this is requested. At same time attention could be given to preparation common position for eventuality of military pressure. Whether or not we from western point of view would wish take any initiative at this time in endeavoring recreate a military relationship with Yugoslavia along lines which began to emerge between 50 and 53, we cannot judge from here. However should pressure intensify Yugoslavs themselves might cite moral commitments implicit in military conversations 52 and 53 (see for example Embassy despatch 551, May 9 not repeated lateral addressees)\(^4\) a possibility for which I suggest we should be prepared.

**Rankin**

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Source: Department of State, Central Files, 768.5/6-2058. Secret. Repeated to London, Moscow, and Paris.

\(^1\) Document 128.

\(^2\) Telegram 6024, June 18, reported on possible Yugoslav efforts to renew diplomatic ties with the Federal Republic of Germany. (Department of State, Central Files, 662A.68/6–1859)

\(^3\) For documentation, see *Foreign Relations*, 1950, vol. IV, pp. 1338 ff.

\(^4\) This despatch contained a memorandum suggesting ways in which the United States could fulfill its military commitment to Yugoslavia. (Department of State, Central Files, 110.4–OIR/5–958)
130. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, July 1, 1958, 4 p.m.

2. Joint Embassy/USOM message.

1. Yugoslavs have renewed discussions with us with view completion negotiations for termination military aid and finalizing instrument providing for such termination. Yugoslavs greatly concerned at long delay reaching final agreement for termination aid. In informal discussions they have indicated that unless we can reach mutual agreement on terms for terminating military aid, they will have to consider possibility unilateral termination. They state they would not like terminate unilaterally and that government has not yet reached this position.

2. Unless Department has other points of which we unaware only outstanding substantive issue relates paragraph 8 of proposed termination memorandum. Purpose this paragraph was to commit us to continue provide local currency for projects which have been previously justified on military facility or common defense basis and which Yugoslavs now wish justify on economic development basis. Principal project involved this connection is Jadranski Put, matter which now on way to solution through exchange of notes authorized A-165. However, even after such exchange of notes, there still remains open disposition following three funds from other than PL 480 which envisages military use of dinar and which Yugoslavia would like to resolve in some manner prior conclusion agreement on termination military assistance:

(A) 1,459,500,000 dinars ($4,865,000) under section 550 agreement of May 12, 1955 which had been originally intended for off-shore procurement. As indicated paragraph 3, Emtel 1513, Yugoslavs wish use these funds for construction two highways and railroad line.

(B) 3,922,959,219 dinars ($13,076,531) of Section 402 funds under agreement of May 12, 1955. Agreement contemplates use these funds for defense projects and specifically indicates US favorably inclined use these funds for Jadranski Put and Zagreb-Ljubljana highway.

Source: Department of State, Central Files, 768.5–MSP/7–158. Confidential.

1 Airgram A-165, June 6, reported that a Presidential waiver would permit the use of counterpart dinars to fund the Jadranski Put highway project and enclosed proposed texts of notes to be exchanged with Yugoslavia regarding funding. (Ibid., 411.6841/6–658)

2 For text of this agreement for the disbursement of U.S.-owned dinars, see 6 UST 144.

3 Not printed.
(C) 2,781,202,669 dinars ($9,270,676) of Section 402 funds under agreement of January 19, 1956.\(^4\) Latter agreement envisages use these funds for defense support but does not specify any specific projects.

Disposition of funds under items (B) and (C) would be covered by release of funds for projects envisaged in exchange of letters of April 25 and 28 between Popovic and Larson relating to general local currency problem.\(^5\) However, Yugoslavs are concerned with fact that this exchange of letters does not actually provide for release local currency and thus wish some further assurance on items (B) and (C) above. These items apparently not covered by exchange of notes authorized A–165. It was these items we were seeking to include in $30 million PROAGs\(^6\) concluded June 30 but which we could not include because of legal complications.

3. We have indicated to Yugoslavs that paragraph 8 proposed termination note is unacceptable. Yugoslavs have now suggested that if we could give them letter assuring them of our intention utilizing funds (A), (B) and (C) in paragraph 2 above for economic development projects, they would be prepared drop paragraph 8 from termination note and conclude termination agreement even though additional time might be required to complete steps necessary enable release funds in question.

4. Accompanying cable\(^7\) gives text of letter as amended by us in interest precision and moderateness. We have not yet shown this amended version to Yugoslavs and have given no indication as to whether this approach is acceptable even in principle.

5. We strongly recommend submission of some such letter to Yugoslavs and conclusion of memorandum for termination military aid soonest. This matter has dragged out far too long and is causing considerable irritation and suspicion on part Yugoslavs. Since funds under items (B) and (C) in paragraph 2 above are already intended for economic development projects pursuant Popovic–Larson exchange of letters, we would not be giving Yugoslavs any new concession by assurances stipulated in proposed letter. As regards item (A) of paragraph 2, we feel we should agree use these funds for two highways and railroad in view (i) relative soundness these projects, (ii) lack any other immediate, specific US use to which we wish to put these funds, and (iii) availability other funds for US uses when such needs arise.

\(^4\) For text of this agreement for economic assistance on a loan basis under the Mutual Security Act of 1954, see 7 UST 149.
\(^5\) Not found.
\(^6\) Project agreements.
\(^7\) The Embassy's suggested revisions were sent to the Department of State in telegram 3, July 1. (Department of State, Central Files, 768.5–MSP/7–158)
6. Request reply soonest in view protracted delay which has already occurred and resulting impairment to US-Yugoslav relations. There is some indication that Yugoslavs may suspect US endeavoring, by dilatory tactics, to revert original US position that bilateral should be kept in force, a position which they felt we tacitly agreed abandon. Whatever may develop in reference military relationships pursuant present situation between Yugoslavia and Soviet bloc, we suggest it important in present state that Yugoslavs not gain impression US is endeavoring pressure them into continuation old military relationship which they are under heavy political pressure to terminate. Therefore, cannot overemphasize importance dealing with this matter as expeditiously as possible.

7. If Washington has any other points on either language or substance of proposed termination memorandum, please send soonest.⁸

Rankin

⁸Telegram 23 to Belgrade, July 7, reported that delay in final termination of the military aid agreement was due to studies of the effects of termination on U.S. ability to continue military sales to Yugoslavia. It promised quick action in forwarding the text of the proposed termination and sales agreements. (Ibid.)

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131. Memorandum of Conversation


SUBJECT
Yugoslav Chargé d'Affaires' discussion with the Secretary concerning Middle East crisis

PARTICIPANTS
The Secretary
Mr. Franc Primozic, Yugoslav Chargé d'Affaires ad interim
Mr. Kohler, EUR
Mr. Sutterlin, EE

In accordance with his urgent request, the Yugoslav Chargé d'Affaires, Mr. Franc Primozic, called on the Secretary on July 19 in connec-

Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Sutterlin.
tion with the current Middle East crisis.¹ Mr. Primožic began by saying that his Government considers the situation in the Middle East extremely dangerous particularly in view of the landing of US troops in Lebanon. The Secretary queried Mr. Primožic as to whether the Yugoslav Government does not also feel that the murder of the lawful Iraqi Government added a significant and dangerous element to the Middle Eastern situation. Mr. Primožic replied that the Yugoslav Government considers developments in Iraq as “internal” in nature. The Yugoslav Chargé then continued to present the view of his Government as follows:

(1) The action taken by the US in Lebanon is contrary to the UN Charter, especially since it followed the report issued by the UN observers in Lebanon according to which the struggle there was not the result of external interference.

(2) During President Nasser’s recent visit to Yugoslavia² President Tito gained the impression that the Egyptian President does not desire a further deterioration in his relations with the West, but wishes to pursue an independent policy tied neither to the Soviet Union nor to the West if the Western nations by their actions make such a policy possible.

(3) The arrival of British troops in Jordan has worsened the current crisis and broadened the area of conflict.

(4) Any military operations against Iraq would further endanger the situation and would bring with it, in the Yugoslav view, the possibility of direct Soviet intervention.

(5) Yugoslavia is directly concerned in the Middle East because of its interest in preserving world peace and its geographic location in the Mediterranean area. The Yugoslav Government has issued an official statement in which it has declared that the US and British intervention in Lebanon and Jordan is unjustified and dangerous. In this same statement the Yugoslav Government has expressed its opinion that only the UN can lawfully intervene in the area. These views are based on a full assessment of the facts and on the Yugoslav desire to preserve peace. Mr. Primožic stated that he wished particularly to stress that the Yugoslav attitude toward developments in the Middle East derives from a careful analysis of the situation there and not from any anti-Western point of view.

¹ On July 14 a revolution in Iraq overthrew the pro-Western government of King Faisal II. Lebanese President Camille Chamoun requested that U.S. troops be sent to his nation to restore order and to prevent foreign intervention. U.S. forces landed in Beirut on July 15.
² July 2–12.
The Yugoslav Government still believes that a peaceful solution of the Middle East crisis is possible through the UN. It has been consulting with other governments since it feels that the most appropriate step now would be an emergency General Assembly session sponsored by Yugoslavia together with additional uncommitted nations and possibly by "others."

The Secretary asked Mr. Primožić whether the Yugoslav Government considers that it is wrong to send troops to aid a friendly nation which has requested assistance in preserving its independence. Mr. Primožić replied that the UN is the proper body to take such action. The Secretary then noted that the Soviet Union had vetoed a proposal in the Security Council which would have transferred to UN forces the responsibilities which US troops have assumed in Lebanon.³ He asked Mr. Primožić whether in the Yugoslav view this Soviet veto was a constructive step. Mr. Primožić conceded that it was not. The Secretary then continued that there are US military elements in some 30 countries throughout the world where they have been sent without involving the UN. Should they now be withdrawn, he asked. Mr. Primožić replied in the negative but again emphasized that the Middle East is an area of extreme tension. The Secretary then compared Nasser's Pan Arabism to Hitler's Pan Germanism in that it showed no respect for the independence of nations. The US has incontrovertible proof, he said, of a plot organized against the Lebanese Government from Cairo and Damascus. He had, in fact, just received a message from Deputy Under Secretary Murphy indicating that rebel activities in the Basta area of Beirut are being directed over an open telephone line from Damascus.⁴ The Yugoslav Government maintains that it is basing its policy in the Middle East crisis on an assessment of the facts, but the fact is, the Secretary said, that a plot similar to the one carried out in Iraq was planned against the Governments of Lebanon and Jordan. Under the circumstances there was insufficient time for effective UN action. When the US sent its troops, the Secretary added, it notified the UN and proposed that the UN take over as soon as possible the duties being performed by American troops in aiding the Government of Lebanon to preserve that country's independence. The Soviet Union, however, vetoed the proposal which would have brought about such UN action.

Mr. Primožić expressed the view that the chance for such a UN solution still exists if a special emergency General Assembly session is held. The Secretary agreed and said that if the Japanese resolution is not

³ For text of the U.S. proposed resolution together with the U.S. statement of position, see Department of State Bulletin, August 4, 1958, pp. 186–198.
⁴ In telegram 530, July 19, Murphy gave a preliminary assessment of conditions in Lebanon. (Department of State, Central Files, 110.13–MU/7–1958)
adopted the US favored an emergency session.\textsuperscript{5} The truth is, the Secretary continued, that something similar to Murder, Inc. is loose in the world today, intent on destroying the independence and integrity of small nations. Mr. Primozic at this point commented that the initial acts of the new Iraqi Government have been reasonable. The Secretary replied that its initial acts may seem reasonable but its hands are dripping with blood. The rebel government had done a very thorough job in eliminating the lawful Iraqi Government,\textsuperscript{6} he stated, and the same would have happened in Jordan and Lebanon if US and British help had not been forthcoming. Surely, he continued, nations under such circumstances have the right to ask for help.

Mr. Primozic then said that in the Yugoslav view the economic and political position of the West in the Middle East can best be secured through the creation of a single autonomous and neutral Arab state. Yugoslavia, he said, is supporting movements which tend in this direction. When asked by the Secretary whether Yugoslavia is not concerned by the methods used in achieving a single state, Mr. Primozic replied that in the Middle East it is a question of a historical process which the world must understand. The Secretary asked if this meant that a state such as Lebanon should offer no resistance to the destruction of its independence. If this is the Yugoslav position, the Secretary said, then he understood it, but he did not think that it should be cloaked by references to the UN Charter. In 1956, he continued, the US moved to protect Egypt when its independence was threatened by the action of the British, French and Israelis. Now it is doing the same in Lebanon when that small country’s independence, is threatened by Nasser. We believe in a world of peace and order under the UN Charter, the Secretary said. Mr. Primozic, stating that perhaps he had been misunderstood, referred to the struggle of the partisans in Yugoslavia during the Second World War which had triumphed because it represented a necessary historical process. In a similar manner, he said, there is now a historical tendency among the Arab states to unify. The Secretary replied emphatically that this is not true in Lebanon. He had never thought much of Pan Germanism which, claiming to be a “historical process”, had run roughshod over other nations and had eventually led to a World War. Historical processes, the Secretary concluded, must work through approved international means and not through murder and the destruction of independent nations.

\textsuperscript{5} For text of the July 21 Japanese resolution to create a strengthened U.N. peacekeeping force in Lebanon, see Department of State Bulletin, August 4, 1958, p. 199. This resolution was vetoed by the Soviet Union in the July 22 Security Council meeting.

\textsuperscript{6} In addition to King Faisal and Prime Minister Nuri al-Said, the entire Iraqi royal family was killed in the uprising of July 14.
132. Memorandum of Conversation

Brioni, July 26, 1958.

PARTICIPANTS
President Josip Broz Tito
Foreign Secretary Koca Popovic
Mrs. Dusan Kveder
Ambassador K. L. Rankin

I called on President Tito at his Brioni residence, by appointment, at
nine o’clock this morning and found the President with Foreign Secre-
tary and American-born Mrs. Dusan Kveder, wife of the new Yugoslav
Ambassador to India. Tito was deeply tanned and looked very well, al-
though plump. He greeted me courteously but by no means effusively; I
seemed to notice a certain restraint. The President waited for me to start
the conversation.

First I said that since arriving in Yugoslavia last February I had vis-
ited the capitals of all six Republics and other points as well. I compli-
mented the President on the notable progress in building and other
development. He said he understood I had been in Yugoslavia before
the war, and I replied that I had several times, first in 1930. Mrs. Kveder
started to interpret my remarks but Tito said this was unnecessary until
we got to political matters.

Taking the hint, if such it was, I asked what he thought we could
expect from Khrushchev and Nasser.1 As to Khrushchev, he said, much
would depend upon what others did, including the United States. But
he could tell me about Nasser’s policies and intentions. Tito then re-
peated the oft-told story that Nasser had not expected the revolt in Iraq
at this time and immediately urged the new regime there to move care-
fully. They must sell their oil to the West, and nationalization or similar
steps must be avoided; they should live up to Iraq’s commitments to the
West.

Tito then reviewed Nasser’s case for Arab nationalism. The Arab
countries must get rid of feudalism and have their resources developed
for the benefit of the people. They must be free and independent. More-
over, Nasser was not responsible for the current revolt in Lebanon.
While he was in Brioni, reports from Beirut indicated that the situation
there was improving and that a settlement was in prospect. Nasser had
been gratified. Then American Marines landed.

Source: Department of State, Central Files, 768.11/7–2958. Confidential. Sent to the
Department of State as an enclosure to despatch 3 from Venice, July 29.

1 Tito and Nasser held extensive discussions during the latter’s July 2–12 visit to
Yugoslavia.
I asked the President whether Nasser had said anything about the long standing campaign of Cairo Radio, inciting to revolt and assassination. And had Nasser explained how large amounts of arms and money had been supplied from Syria to the rebels in Lebanon? Nasser had not mentioned these points, he said.

Tito then went on in general terms to criticize the United States policy in the Near East. We had supported feudal governments which did not represent the people. Even at the cost of some economic losses, we should change our policies.

I remarked that we must deal with governments in power. Our policy of avoiding interference in the internal affairs of other countries leaves us no alternative. Perhaps the previous Iraqi Government did not enjoy wide popular support, but is its successor any better in this respect? We may hope so, but we do not like the way it came into power, by murder. I noted that the "revolutions" in so-called Arab states have been bourgeois more than proletarian, although the bourgeois sector of the population in most cases is quite small; it cannot be said to represent the mass of the people. Tito admitted that this was so, but added that a bourgeois regime is already an improvement over feudalism, and that there is no danger of Communist penetration in a backward area such as the Near East. (This was the only occasion the word "Communist" was mentioned during our talk. I made no comment.)

I noted that many of the so-called Arab states are not really Arab; they merely speak related dialects and have a common Moslem religious tradition, although most of the leaders are not actually religious. This complex situation, I said, is characterized by primitive emotion and great weaknesses. Witness the easy defeat of Egypt by Israel in 1956; no doubt Israel could do it again. We, too, wanted these states to be independent and to develop their resources for the benefit of their people. A long period of peace was needed to permit this. But the Soviet Union was taking advantage of weakness to stir up trouble, such as furnishing unneeded arms to Egypt at the very moment of the 1955 Summit Conference in Geneva. I thought the great danger to be an eventual Soviet takeover in the area. Popovic remarked that the Baghdad Pact came even before 1955, and I replied that Soviet policy toward Turkey and Iran had been ample justification for a defensive pact.

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2 Since February 1 Syria had been a part of the United Arab Republic of which Nasser was President. President Eisenhower in his July 15 message to Congress on the U.S. military intervention in Lebanon accused Syria of fomenting the civil war in Lebanon and of supplying arms and other aid to one of the contending factions. For text of this statement, see Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1958, pp. 550–552.

3 Between October 29 and November 3, 1956, Israeli forces drove the Egyptian army out of most of the Sinai peninsula.
In Lebanon, I said, we have one of the most democratic countries in the entire region. The United States is not supporting any particular group there; we hoped that the election scheduled to take place next week would help matters, whoever wins. But the present legal government had appealed unanimously for our aid. It appeared to us that the situation was deteriorating so rapidly that military action must be taken. We did not want to do this, but we had definite obligations to act under such circumstances. If Yugoslavia should find itself in a position like that of Lebanon—I hoped this would never happen—and the United States had similar obligations toward Yugoslavia, I should want us to act. Tito immediately interjected that Yugoslavia would not want foreign troops on its territory. I repeated that I hoped such steps would never be needed, but that any of us might need help on some future occasion which we could not foresee, and I hoped that help would be forthcoming in accordance with our mutual obligations.

Tito made a distinction between external aggression, where the United Nations would be required to act, and internal revolt. I said that recent external aggression in Lebanon is clear enough, even though it might not involve large military forces marching across frontiers. We could not let matters drift further. We had acted under the UN Charter and then tried to turn directly to the United Nations, only to be blocked by the Soviet veto. I hoped that the President had noted in detail the voting on the three proposals which came before the Security Council, including the Japanese resolution attempting to bridge the gap. Evidently the Soviets did not want a solution; they wanted to make more trouble.

Failing again to provoke a reaction to my reference to the Soviets, I remarked that it was useful to review in the light of subsequent events the plan for a reduction of armaments laid before the UN Subcommittee by the Western Powers last August. This would have provided for stopping nuclear bomb testing and much more. But like all such efforts over the years, nothing could be accomplished because of Soviet opposition. I had brought with me a copy of our announcement of August 1957 in this connection. No doubt the President and the Foreign Secretary had seen the Western plan at the time, but I was leaving it with them anyway. At this point, Popovic, who had said very little, remarked that

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5 For text of the Four-Power working paper submitted to the U.N. Disarmament Commission on August 2 in London, see ibid., August 17, 1957, pp. 303–304.

6 Apparently a copy of the paper cited in footnote 5 above.
the Soviets had actually stopped testing, which was "positive".\(^7\) (I let that pass.) Tito added his regret that technical differences were delaying a Summit Conference.\(^8\)

Tito finally reacted to the extent of saying that he was not defending Soviet foreign policy. But he left me with the inescapable impression that while quite ready to talk about Nasser and the Near East, he preferred not to discuss Khrushchev and the Soviet Union in any detail.

Our talk had lasted nearly an hour and I concluded by remarking that our aims and those of Yugoslavia seemed to be substantially the same as regards the Near East. Our differences relate to method. The United States does not pretend to have all of the answers, but we are satisfied that letting matters drift is no solution. The other side is active and we shall keep on trying. I said that an Eastern diplomat remarked to me recently, "If Lebanon goes, Islam will be aflame from Casablanca to Kabul". (This was the Iranian Minister in Belgrade.) At this point Tito made his only positive suggestion for correcting American Near Eastern policy, which he had criticized. He urged that we should recognize the new regime in Iraq without delay as a means of keeping them on a reasonable course.\(^9\)

As I took my departure, President Tito asked me to convey his good wishes to President Eisenhower. He added that he would answer Secretary Dulles' recent message.\(^10\) He continued to be friendly but reserved, and rather less "bouncy" than when I saw him previously.

Could it be that Tito is simply worried about the prospect of war, as he has been represented lately in several reports? Or had he given Nasser some bad advice as to what the United States and/or Russia might do in the Near East? Had he assured Nasser that the United States would take no action in the Lebanon, and that Russia would support him in any case, only to have the Marines land and Nasser come back all but empty-handed from rushing off to Moscow like a frightened little boy? If so, both Nasser and Tito lost face, which is particularly grave for them.

K. L. Rankin\(^11\)

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7 On March 31 the Soviet Union announced a unilateral suspension of nuclear testing.

8 A reference to the continued insistence by the United States and other Western powers that substantive negotiations occur prior to a heads of government meeting.

9 The United States recognized the Republic of Iraq on August 2.

10 In this letter, July 16, Dulles outlined the reasons for U.S. military intervention in Lebanon. (Department of State, Central Files, 783A.5411/7-1658) No reply from Tito has been found.

11 Printed from a copy that bears this typed signature.
133. Operations Coordinating Board Report

Washington, August 6, 1958.

OPERATIONS PLAN FOR YUGOSLAVIA

I. Introduction

A. Special Operating Guidance
   1. Short-Term Objectives
      a. An independent Yugoslavia outside the Soviet bloc, capable of withstand- ing Soviet political and economic pressures, not actively engaged in furthering Soviet Communist imperialism, and with a potential for weakening the monolithic front and internal cohesiveness of the Soviet bloc.
      b. Without jeopardizing the above objectives, reorientation of the Tito regime in the direction of political and economic liberalization and closer Yugoslav ties with the West in general and Western Europe in particular.

   2. Long-Term Objective. Eventual fulfillment of the right of the Yugoslav people to live under a government of their own choosing, which maintains peaceful and stable relations with neighboring states, and participates fully in the Free World community.

      a. The Tito–Kremlin break of 1948 and Yugoslavia’s remaining outside the Soviet bloc since then have served U.S. interests through the continued denial to the USSR of important strategic positions and other assets, and through the political effects, on both sides of the iron curtain, of a break in the ”monolithic” Communist bloc.
      b. U.S. policy in support of the maintenance of Yugoslavia’s independence constitutes an integral part of the broader U.S. policy which has as its objective the eventual attainment of complete national independence by all of the Soviet-dominated nations in Eastern Europe. The example of Yugoslavia, which has successfully maintained its independence of Soviet domination, stands as a constant reminder to the dominated regimes and serves as a pressure point both on the leaders of these regimes and on the leadership of the USSR. It is in the U.S. interest...
to exploit Yugoslavia's role in Eastern Europe, insofar as it tends to advance U.S. objectives.

c. The Yugoslav Government and people should be encouraged to continue to stand firmly for maintenance of Yugoslavia's independence in the face of Soviet pressures and blandishments.

d. The United States should avoid actions which, on the one hand, could be interpreted as unreserved endorsement of the Tito regime, or which, on the other hand, would encourage attempts to overthrow that regime by violence.

4. **Level and Purpose of U.S. Aid.** The United States will continue to furnish economic and technical assistance to Yugoslavia in the minimum amounts needed for either or both of the following primary purposes:

   a. To encourage Yugoslavia to pursue policies which will contribute to the attainment of U.S. objectives.

   b. To assist Yugoslavia in avoiding undue economic dependence on the Soviet bloc.

To the extent possible without prejudicing the above primary purposes, such assistance should also attempt to influence Yugoslavia to give greater play to free economic forces within Yugoslavia.

5. **Closer Cultural Ties.** Closer cultural ties should be developed between Yugoslavia and the nations of the Free World, particularly those of Western Europe.

6. **Yugoslav Relations with Greece and Turkey.** Although the Balkan Pact must be recognized as dormant, the development of closer Yugoslav relations with Greece and Turkey in economic, cultural, and related fields should be encouraged as a means of weakening Soviet power in the Balkans.

7. **Controls on Exports.** Yugoslavia is to be considered on the same basis as free European nations in evaluating Yugoslav requests for U.S. export licenses so long as Yugoslavia's export control practices are generally consistent with the objectives of the multilateral trade controls imposed against the Soviet bloc.

8. **Military Training and Supplies.** The training of limited numbers of Yugoslav military personnel on a grant or reimbursable basis as appropriate is permitted. The purchase by the Yugoslavs of such U.S. military equipment and supplies as may be needed to avoid dependence on the Soviet bloc is also permitted, as long as satisfactory U.S.-Yugoslav political relations continue to exist.

9. **Peaceful Uses of Atomic Energy.** Opportunities should be utilized for cooperation in the unclassified, peaceful uses of atomic energy, including the training in the United States of Yugoslav scientists in non-sensitive fields.

10. **Information Activities.** Information activities should be directed toward building Yugoslavia's will to combat Soviet encroachment and
to encouraging ties with the West, while at the same time (a) avoiding endorsement of the internal policies of the Tito regime and taking account of the Yugoslav people's hope for eventual attainment of greater freedom, and (b) avoiding antagonizing the Tito regime to the point of jeopardizing realization of our immediate objectives. Information activities should emphasize the peaceful and constructive nature of U.S. foreign policies and show them to be compatible with the best interests of the people of Yugoslavia; should acquaint the Yugoslavs with the facts of U.S. economic assistance in terms of a stronger Yugoslav economy; and to the extent possible and without antagonizing the regime, they should encourage liberalization of Yugoslav internal political and economic arrangements, and encourage the people in their pro-Western orientation. Audiences, roughly in the order of their importance, are the following: (1) government and party officials, press and radio (2) educators, university students and youth in general; (3) cultural leaders; (4) military; (5) professionals; and (6) industrial workers and peasants.

11. Evaluating Yugoslav Actions and Statements. In dealing with the Yugoslavs and evaluating their actions and statements we should realize that the close relationships into which the Yugoslavs may be led partly by their attempts to influence Soviet bloc leaders are one of the factors inducing them to make statements of which the U.S. cannot approve. We should not allow irritations caused thereby to affect our judgment unduly, but should evaluate Yugoslav statements within the context of Yugoslavia's ideological and geographic position. It is likely that considerations of ideology and opportunism will in any event lead the Yugoslavs to adopt some positions inimical to U.S. interests, but we should recognize that, if they are to exert any significant influence in the Soviet world, they may be obliged to adopt these positions.

12. Utilization of U.S.-Owned Yugoslav Dinars Reserved for U.S. Use. A continued effort should be made to find effective uses for the dinar balances reserved for U.S. use, keeping in mind the following considerations:

   a. With the exception of indeterminate amounts for market development, purchase of strategic materials, and education, the "U.S. use" dinars are subject to Section 1415 of the Supplemental Appropriation Act of 1953,¹ which provides that foreign currencies owned by the United States may be used by Federal agencies for any purpose for which appropriations have been made, but that the equivalent dollars must be returned to the Treasury from the agency appropriation; however, in case of local currencies generated by PL 480 programs, the President is authorized to waive the requirements of Section 1415.

   b. Relative to the amounts held for U.S. use, normal U.S. requirements are few. There is at present comparatively little that we desire to

¹For text, see 67 Stat. 8.
obtain from Yugoslavia. Furthermore, even when locally produced goods could be used by the United States directly or in its aid programs for other countries, the understanding reached with the Yugoslavs that we will take their balance of payments position into account in using our dinars virtually precludes the purchase of goods for export.

B. Selected U.S. Arrangements With or Pertaining to Yugoslavia

   None.

14. U.S. Commitments for Funds, Goods, or Services
   PL 480 Agreement of December 27, 1957—$7.5 million.²
   PL 480 Agreement of February 3, 1958—$62.5 million.³
   PL 480 Agreement of June 26, 1958—$3 million.⁴
   Mutual Security Program—FY 1958 (special assistance—$10 million; technical cooperation—$1.75 million).⁵

15. Other Arrangements
   Information Media Guaranty Agreement, signed August 15, 1952.⁶

II. Current and Projected Programs and Courses of Action

   Note: Individual action items when extracted from this Plan may be downgraded to the appropriate security classification.

   A. Political

   16. Encourage the Yugoslav Government and people to continue to stand firmly for the maintenance of Yugoslavia’s independence in the face of Soviet pressures and blandishments through appropriate programs and actions.

       Assigned to: State
       Supporting: All interested agencies
       Target Date: Continuing

   17. Express respect for and understanding of Yugoslav positions which reflect an independent point of view.

       Assigned to: State, USIA
       Target Date: Continuing

   18. Seek to establish and expand direct contacts with high-level Yugoslav officials in order to increase their orientation toward the West.

       Assigned to: State
       Supporting: All interested agencies
       Target Date: Continuing

² For text, see 8 UST 2489.
³ For text, see 9 UST 256.
⁴ For text, see 9 UST 949.
⁵ For text of this agreement, which entered into force on April 5, 1958, see 9 UST 1493.
⁶ For text, see 3 UST 5052.
19. Consider extending invitations to high-ranking Yugoslav officials to visit the United States, particularly when such invitations can be associated with visits, or proposed visits, to Yugoslavia by United States officials of comparable rank.

   Assigned to: State
   Supporting: All interested agencies
   Target Date: Continuing

20. Exploit as appropriate the contrast between Soviet efforts to subjugate Yugoslavia as opposed to U.S. support of Yugoslavia’s independence.

   Assigned to: State, USIA
   Target Date: Continuing

21. While avoiding measures which would unduly increase Yugoslav influence in uncommitted countries, utilize Yugoslav experience with the USSR which serves to demonstrate the nature of Soviet imperialism.

   Assigned to: State, USIA
   Target Date: Continuing

22. Encourage Western European countries to adopt policies parallel to those of the United States with respect to Yugoslavia.

   Assigned to: State, USIA
   Target Date: Continuing

23. As appropriate opportunities arise, encourage the development of Yugoslav attitudes and policies which reinforce our efforts to achieve U.S. policy objectives toward the countries of the Communist bloc.

   Assigned to: State
   Target Date: As stated

24. While recognizing that the Balkan Pact is dormant, encourage the continuing existence of the Tripartite Balkan Secretariat.

   Assigned to: State
   Target Date: Continuing

25. Encourage the resolution of differences between Yugoslavia and Italy and between Yugoslavia and Austria with a view to promoting mutual understanding and improved relations in political, economic and related fields of activity.

   Assigned to: State
   Target Date: Continuing

26. Encourage as appropriate Yugoslavia and Free World countries to regularize emigration from Yugoslavia.

   Assigned to: State
   Target Date: Continuing
27. Continue to resist attempts by East European émigré leaders to associate Yugoslav exile groups with the Free Europe Committee and the Assembly of Captive European Nations.

Assigned to: State
Target Date: Continuing

28. Continue to seek procedures, consistent with internal security, for expediting the issuance of non-immigrant visas to bona fide representatives of Yugoslav industrial and trading enterprises.

Assigned to: State
Target Date: Continuing

29. Conduct U.S. naval visits to Yugoslav ports, including one formal visit annually with calls in Belgrade by ranking U.S. flag officers. Be prepared to extend invitations for reciprocal visits by Yugoslav naval units to U.S. ports when appropriate.

Assigned to: State, Defense
Target Date: As stated

B. Economic

30. Plan to continue economic and technical assistance, both of which are aimed at helping avoid undue Yugoslav dependence on the Soviet bloc, expanding the impact of Western ideas and methods in Yugoslavia, encouraging liberal tendencies within the Yugoslav economy and developing closer Yugoslav ties with the Free World. (For financial details, see attached pipeline analysis.)

Assigned to: ICA
Supporting: State
Target Date: Continuing

31. Plan to continue Title I PL 480 assistance to Yugoslavia bearing in mind the objective of assisting Yugoslavia to avoid undue economic dependence on the Soviet bloc.

Assigned to: Agriculture
Supporting: State, ICA
Target Date: Continuing

32. Continue the Title III PL 480 program in support of the activities of American voluntary organizations in Yugoslavia.

Assigned to: ICA
Supporting: State, Agriculture
Target Date: Continuing

33. Consider Yugoslavia’s request for assistance from the Development Loan Fund in accordance with normal DLF criteria, and the criteria set forth in paragraph 4 of this paper, giving especial emphasis
to those projects which will serve to tie Yugoslavia more closely to the economy of Western Europe.

Assigned to: State
Supporting: ICA, Treasury
Target Date: September 30, 1958

34. Encourage expanded Yugoslav participation in the work of the Organization for European Economic Cooperation.

Assigned to: State
Supporting: ICA
Target Date: Continuing

35. Encourage the continuing expansion of U.S.-Yugoslav trade.

Assigned to: Commerce
Supporting: State, ICA
Target Date: Continuing

36. Encourage the further development of tourism between the United States and Yugoslavia and between Western European countries and Yugoslavia.

Assigned to: ICA, Commerce
Supporting: State, USIA
Target Date: Continuing

37. Consider Yugoslavia on the same basis as free European nations in evaluating Yugoslav requests for U.S. export licenses so long as Yugoslavia's export control practices are generally consistent with the objectives of the multilateral trade controls imposed against the Soviet bloc.

Assigned to: Commerce
Supporting: State
Target Date: Continuing

38. Take all appropriate steps to facilitate the use of U.S.-owned Yugoslav currency earmarked for economic development projects in Yugoslavia.

Assigned to: ICA
Supporting: State
Target Date: Continuing


Assigned to: State, ICA, Treasury
Supporting: All interested agencies
Target Date: Continuing

40. Utilize opportunities for cooperation in the unclassified, peaceful uses of atomic energy, including the training in the United States of Yugoslav scientists in non-sensitive fields.

Assigned to: AEC, State
Supporting: ICA
Target Date: Continuing
41. Give those U.S. departments and agencies with export control responsibilities discretionary authority as regards the licensing for export to Yugoslavia of reasonable quantities of materials and equipment obviously intended for:

a. Basic research and instruction in the atomic energy field (including cooperation under any eventually concluded agreement for U.S. assistance in furnishing Yugoslavia with a research reactor and fissionable materials therefor, and related equipment).
b. Source material (e.g., uranium) exploration.
c. Medical or normal industrial use.

Assigned to: Commerce, AEC  
Supporting: State  
Target Date: Continuing

C. Military

42. Continue to permit the training of limited numbers of Yugoslav military personnel on a grant or reimbursable basis as appropriate.

Assigned to: Defense  
Supporting: State  
Target Date: Continuing

43. Continue to permit the Yugoslavs to purchase such U.S. military equipment and supplies as may be needed to avoid dependence on the Soviet bloc, as long as satisfactory U.S.-Yugoslav political relations continue to exist.

Assigned to: Defense  
Supporting: State  
Target Date: Continuing

44. Give consideration to exchange visits of high-ranking U.S. and Yugoslav military leaders.

Assigned to: State, Defense  
Target Date: Continuing

D. Information and Cultural

45. Provide appropriate information and public relations support for political, economic, and military policies and programs set forth elsewhere in this Operations Plan.

Assigned to: USIA  
Target Date: Continuing

46. Encourage visits to Yugoslavia by prominent Americans including both high-ranking Government officials and individuals well known in the fields of art, science, professions, etc.

Assigned to: State  
Target Date: Continuing

47. Strengthen and expand exchange of persons programs with Yugoslavia by: (a) giving emphasis to educational exchange programs
(students, professors and educators on full academic year or school term programs); (b) negotiating appropriate arrangements with the Yugoslav Government designed to facilitate use of local currencies for PL 402 purposes if, as anticipated, Congress authorizes such use; (c) to the extent funds are available, expanding present PL 402 “leader grant” programs (for educators, cultural leaders, journalists, etc.); and (d) continuing active consideration of the possibility of initiating the Fulbright Agreement with Yugoslavia. (Note: There is as yet no officially sponsored educational exchange program such as is called for in (a) above. Funds have been obligated to bring five Yugoslavs to this country under the “leader grant” program for FY 1958, referred to in (c) above. It is hoped to bring 18 additional Yugoslavs to the United States under the “leader grant” program for FY 1959.)

Assigned to: State
Supporting: USIA
Target Date: Continuing

48. Encourage the development of private exchange programs between the United States and Yugoslavia, such as those under the auspices of the Ford Foundation.

Assigned to: State
Supporting: USIA
Target Date: Continuing

49. Utilize cultural presentations under the President’s Special International Program, and otherwise, to depict American cultural achievements and mutuality of U.S.-Yugoslav cultural interests.

Assigned to: State
Supporting: USIA
Target Date: Continuing

50. Maintain normal field program of information centers at Belgrade, Zagreb and Novi Sad; daily wireless file; one weekly and three monthly periodicals; documentary films, publicity of U.S. economic assistance and technical cooperation programs; exhibits and English teaching.

Assigned to: USIA
Target Date: Continuing


Assigned to: USIA
Supporting: State
Target Date: Continuing

52. Continue VOA shortwave broadcasting of 2-1/2 hours daily in Serbo-Croatian and Slovenian, including 1-1/4 hours of original broad-
casts and 1 hour of repeat broadcasts; continue VOA cross-reporting (to the Soviet bloc) of Yugoslav developments.

Assigned to: USIA  
Target Date: Continuing

53. When appropriate, seek Yugoslav approval for an information center at Sarajevo.

Assigned to: USIA  
Supporting: State  
Target Date: As stated

54. Participate in the Zagreb and Belgrade fairs.

Assigned to: Commerce  
Supporting: State, USIA, ICA  
Target Date: Continuing

Note: The following NIE’s are applicable to Yugoslavia:
NIE 31–57—Yugoslavia’s Policies and Prospects—11 June 1957  
SNIE 31/1–57—Yugoslavia’s Internal Position—November 1957

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8 For text, see ibid., pp. 802–803.

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134. Memorandum of Conversation

Washington, September 12, 1958.

SUBJECT

Mr. Franc Primozic, Chargé d’Affaires, Yugoslav Embassy  
Mr. Vasilij Milovanovic, Economic Counselor, Yugoslav Embassy  
Mr. Slobodan Martinovic, First Secretary, Yugoslav Embassy  
Mr. Beale, E  
Mr. Katz, EE

The Yugoslav representatives called this afternoon at their request to seek what information might now be available on the status of

Source: Department of State, Central Files, 768.5–MSP/9–1258. Limited Official Use. Drafted by Katz on September 15.
proposals made to Mr. Dillon on July 10.\textsuperscript{1} The proposals of July 10 concerned financing of certain Yugoslav investment projects by the Development Loan Fund and the Export-Import Bank. Mr. Primozić recalled that he had gotten the impression from Mr. Dillon that we might be in a position to make a reply in about two months. Furthermore, since Mr. Martinovic was about to depart for Belgrade on consultations, Mr. Primozić wished to have some information which could be conveyed to his Government.

Mr. Beale acknowledged that almost two months time had elapsed since Mr. Primozić's meeting with Mr. Dillon. During this time the Yugoslav proposals have been given serious consideration.

One of the proposed projects, the fertilizer plant at Pancevo was expected to come up before the DLF Board next week. While we could not anticipate the Board’s decision, we were hopeful. Two other projects, the hydro-electric plant at Trebinjica and the thermo-electric plant at Kosovo are under technical review by the DLF. Because of the limited funds available to the DLF, however, and the need to balance many urgent requirements, we are unable to express any judgement of how quickly these projects can be considered. As regards the remaining projects on the list presented to Mr. Dillon by Mr. Primozić, Mr. Beale stated that we are unable to consider them at this time.

In response to Mr. Primozić's question about the Export-Import Bank as a source of financing, Mr. Beale indicated that while he had not had an opportunity to discuss the matter with the Board of the Bank, there had been some questions raised about Yugoslavia's ability to service dollar loans. Mr. Beale could therefore offer no encouragement with respect to the willingness of the Bank to make further loans to Yugoslavia.

Mr. Primozić expressed great disappointment at Mr. Beale's remarks about the Export-Import Bank. He was especially surprised to hear that questions had been raised about Yugoslavia's dollar repayment capacity since Yugoslavia was actually better able to service dollar debt now than when the first Export-Import loans were granted. Furthermore, Yugoslavia had maintained its service on the existing loans and had reduced the original $55 million to about $42 million. Mr. Primozić indicated also that at the suggestion of Mr. Dillon, he had thus far refrained from making any approach to the Bank. He appeared to be

\textsuperscript{1} At their meeting with Dillon, Yugoslav representatives outlined the effects on their development programs that the suspension of Soviet aid would have and sought the support of the Department of State for an increased package of U.S. loans to Yugoslavia. (Memorandum of conversation, July 10; \textit{ibid.}, 768.5-MSP/7-1058)
waiting for advice from the Department as to when an approach might be propitious.

Mr. Beale explained that it was not his intention to indicate that Yugoslavs should not approach the Bank. He merely wished to point out that the projects submitted by the Yugoslavs had been passed to the Bank by the DLF as a matter of routine procedure, and the Bank had indicated no interest in them. Furthermore, on the basis of the practical banking approach of the Export-Import Bank, he could not be optimistic. It was agreed, however, that there was no reason why the Yugoslavs could not approach the Bank directly. Mr. Beale undertook to provide Mr. Milovanovic with the name of the Bank Director to whom an approach should be directed.

In response to Mr. Primozic’s inquiry about the status of PL 480, he was informed that Yugoslavia was among the countries for whom programs were being considered on a priority basis. It was indicated that we intended to offer a proposed program at an early date.

During the course of the meeting Mr. Primozic referred to signs of a Soviet economic blockade, specifically the fact that the Soviets are refusing to deliver wheat which was provided for in the commercial agreement. He was asked about reports that the Soviets were also refusing to deliver coking coal. He stated that he had not heard this, although he would not be at all surprised.
135. Memorandum of Conversation

New York, September 27, 1958, 12:20 p.m.

SECRETARY’S TRIP TO NEW YORK

PARTICIPANTS

United States
The Secretary
Mr. Greene

Yugoslavia
Foreign Minister Popovic

SUBJECT

Various

The Foreign Minister said he would be returning to Belgrade in about ten days but had wanted to take an opportunity to describe briefly to the Secretary the major elements of Yugoslavia’s present situation.

Relations with Italy and Austria are satisfactory and good progress is being made in working out questions left over from the war. Relations with Yugoslavia’s Eastern neighbors are, however, bad and getting worse. Recent agitation of the minority questions between Yugoslavia and some, like Bulgaria, had aggravated this situation, which the Foreign Minister thought would continue. All this he ascribed not to ideological issues but to practical and political issues. At the heart of these is that Yugoslavia has refused to knuckle under to the Soviets and the bloc, as the Soviets had hoped.

Now the economic agreements which Yugoslavia had with the Soviet Union, and which had an essential part in maintenance of the Yugoslav economy, have been denounced. Nonetheless, the maintenance of Yugoslav independence is in the Yugoslav Government’s view still an important element of international stability. The question arises whether the United States can help fill the gap.

The Secretary explained that our availabilities for economic assistance are less now than they have been in the past. Nonetheless, he assured the Foreign Minister, the United States is sympathetic to Yugoslavia’s position and will sympathetically study Yugoslavia’s needs.

Source: Department of State, Secretary’s Memoranda of Conversation: Lot 64 D 199. Secret. Drafted by Greene. The meeting was held at the Waldorf Astoria. Popovic was in the United States to attend the 13th Session of the U.N. General Assembly. A note on the source text indicates the conversation took place in French.

1 Reference is to outstanding Yugoslav claims against these two states over boundaries and reparations for damage caused by Italian and Austrian troops during the occupation of Yugoslavia in World War II.
The Secretary solicited the Foreign Minister's views on the relations between the Soviets and the Chicoms particularly with respect to the Far East. Are the Soviets pushing the Chicoms, or are the latter pulling the Soviets along? The Foreign Minister thought that the Soviets are not a moderating element—for example, Khrushchev's latest letter to the President. While the Chicoms do not readily accept Soviet ideological leadership, there are no current major ideological differences between the two, largely because common interests hold the two governments together.

Responding to the Secretary's query, the Foreign Minister thought that Khrushchev does not, in the Soviet Union, exercise one-man power to the extent that Stalin did. Indeed Khrushchev's position is not at all to be compared with Stalin's. He is trying to consolidate his position but there is opposition, and the Stalinist opposition finds support from government and party leaders in the satellites of Eastern Europe who owe their own positions to Stalin. The Secretary expressed his mistrust of Khrushchev, whose temperament he thought dangerous; the Foreign Minister concurred in part but thought that not all that Khrushchev does is for the worse and that he in some instances is a restraining influence on others.

In a separate conversation with Mr. Greene, the Foreign Minister mentioned that on his way home from New York he will stop in London to repay Selwyn Lloyd's visit to Belgrade of last year. He said that Yugoslavia's relations with Britain are generally good these days, despite some difficult problems.

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2 On September 7 Soviet Premier Khrushchev wrote President Eisenhower accusing the United States of precipitating a crisis in the Taiwan Straits. The text of the Khrushchev letter and Eisenhower's reply is in Department of State Bulletin, September 29, 1958, pp. 498-503.


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136. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, October 23, 1958, 4 p.m.

441. Paris pass CINCEUR and DEFREPNAMA. United States-Yugoslav military aid agreement termination talks resumed at Foreign Of-

Source: Department of State, Central Files, 768.5-MSP/10-2358. Confidential. Repeated to Zagreb, Sarajevo, and Paris.
fice October 22. In brief session at which Yugoslavs represented by Rukavina and Bruner, Yugoslavs agreed to United States draft note on purchase military equipment (Department CA-1093)\(^1\) without change and to general form and approach reflected United States draft note on military aid termination. With respect latter, however, they questioned paragraphs 2 (D) re obligation furnish information Embassy, 2 (E) re surplus disposal and 4 re OSP memo understanding.\(^2\)

According Bruner (who was spokesman his side throughout 60-minute session) paragraph 2 (D) appears unnecessary in view Yugoslav willingness assume obligations contained immediately preceding paragraphs. Inclusion, moreover, implies continuing United States-Yugoslav military relationship which Yugoslavs specifically seek avoid. We pointed out 2 (D) considered necessary in connection implementation other provisions this section and represented modest and reasonable requirement in circumstances. Certainly, for example, we should not be precluded from asking information on reports which may reach us concerning Yugoslav shipments United States arms. After further discussion this point we agreed, however, refer Yugoslav views Washington for consideration.

Re 2 (E) Bruner professed inability understand necessity spell this requirement out in such detail. Would it not be sufficient merely state “scrap” would be subject same obligations paragraphs 2(A) through (C)? We cited legislative requirement Section 511 (C)\(^3\) which reflected in 1955 United States-Yugoslav disposal agreement, noting especially that agreement contains no termination provision. We agreed consider counterproposal this paragraph which Bruner undertook draft but expressed doubt anything less than language contained our draft would be acceptable.

\(^1\) CA-1093, August 1, provided negotiating instructions for the termination of the military assistance agreement and for an agreement for the resumption of military sales to Yugoslavia together with U.S. drafts of the texts of such agreements. (Ibid., 768.5-MSP/8-158)

\(^2\) Paragraph 2 spelled out Yugoslav obligations under the agreement:
   (A) to use the military equipment for strengthening Yugoslav defenses;
   (B) not to transfer the equipment without U.S. permission;
   (C) to maintain agreed upon security;
   (D) to furnish information to the U.S. Embassy as requested;
   (E) to notify the Embassy if the equipment (including salvage or scrap) is no longer needed so it may be disposed of as mutually agreed.

Paragraph 4 made editorial changes in the October 18, 1954, Memorandum Relating to Offshore Procurement.

\(^3\) Of the Mutual Security Act of 1954, P.L. 665, enacted August 26, 1954. For text, see 68 Stat. 832.
Bruner commented re OSP memo that while Yugoslavs find proposed paragraph 4 acceptable they object various references "mutual defense" in remaining document. He indicated, however, retention memo would be acceptable if in addition amendments provided in draft paragraph 4 (as revised Deptel 292) first numbered paragraph OSP memo deleted. After discussion this point and in light authorization contained Deptel 226 we agreed to deletion proposed.

As reflected previous discussions this general subject Yugoslavs appear motivated primarily by political considerations and would obviously prefer wipe slate clean. This continues be shown in Bruner comments on draft 2(D) and (E) and OSP. Realistically, however, they apparently have come to appreciate fact their goal not attainable if they also hope obtain needed spares and United States military equipment. Debate within Yugoslav Government on this point may explain in part nearly three month delay in responding United States drafts (CA-1093) which confronted them with hard facts especially manifested in proposed purchase agreement. We can expect further Yugoslav resistance on information requirement and surplus disposal question but in view general acceptance all other points appears to us termination agreement now in sight. Our specific comments and suggestions on paragraph 2(D) and 2(E) follow by separate telegram.

O'Shaughnessy

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4 Telegram 292, October 16, provided substitute language for paragraphs 6 and 12 of the draft termination agreement. (Department of State, Central Files, 768.5-MSP/9–2958)

137. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, November 4, 1958, noon.

471. Joint Embassy/USOM/Agriculture message.
1. We believe we should try get more mileage publicity out of our aid to Yugoslavia. With special assistance for FY 1959 now settled, progress having been made on Development Loan Fund loan to Yugo-

Source: Department of State, Central Files, 768.5–MSP/11–458. Confidential.
slavia, and PL 480 negotiations now under way, we feel we have opportunity engage in publicity to our advantage.

2. We accordingly believe would be desirable Washington issue press release along lines suggested Embtel 472 which would announce special assistance program for Yugoslavia for FY 1959, indicate DLF loan for Pancevo agreed in principle, and note PL 480 negotiations are under way. If such press release is to be issued, we suggest that prior to its issuance Department could provide background briefing press pointing out relationship our assistance to recent Russian actions, namely suspension Soviet credits, including credit to Pancevo, and refusal thus far of Russians sell coking coal to Yugoslavs. We would contemplate that after DLF loan is finally settled and PL 480 negotiations completed, further press releases announcing each of these developments would be issued.

3. Prior to issuance press release, we would propose show it to Yugoslavs as matter of courtesy and for any reaction they may have. We expect that at minimum Yugoslavs will not like such releases and at maximum will positively object to it. It may be that after we have gotten their reaction, we may wish reconsider and not issue such release.

4. Advise.  

O'Shaughnessy

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1 Telegram 472, November 4, outlined recent U.S. economic aid to Yugoslavia. (Ibid.)

2 In telegram 332, November 5, the Department of State discouraged the proposed press release as “untimely” in view of new Yugoslav Government complaints about the difficulties it was encountering replacing cancelled Soviet credits with Western aid. (Ibid.)

138. Memorandum of Conversation


SUBJECT
Yugoslav Protest at Decision in Artukovic Extradition Case

PARTICIPANTS
Mr. Ante Dndic—Political Counselor, Yugoslav Embassy
Mr. Edward L. Freers, Director, Office of Eastern European Affairs
Mr. Moncrieff J. Spear, EE
Mr. Alan Neidle, L
Mr. Frederick Smith, Jr., L

Source: Department of State, Central Files, 611.6826/1-2159. Confidential. Drafted by Spear.
Mr. Drndic called on Mr. Freers on January 21, 1959 to protest the decision of the United States Commissioner in Los Angeles that Andrija Artukovic, Minister of the Independent State of Croatia during World War II, was not extraditable.\(^1\)

In making this protest, Mr. Drndic explained that he wished to make two points.

First, he wished to express the Yugoslav disappointment, bitterness and disillusionment at this decision. Because of Artukovic's history in Yugoslavia during World War II, this decision would be received with particular bitterness by the people there. In addition, the Yugoslav Embassy staff was deeply disappointed, not only because of the time, effort, and money they put into the case, but also because they had been led to believe that justice would be done in this case. Now, however, they had concluded that it was impossible to receive justice in the US courts. After expressing appreciation for the Department's role in this case, Mr. Drndic said that the Yugoslavs realized that this was "the end of the road" as far as the extradition proceedings were concerned. Mr. Freers asked whether the lawyer for the Yugoslavs had advised this, and in reply Mr. Drndic stated that this was the decision of the Yugoslavs on the matter. He continued that the decision could not help but have adverse effects on the friendly ties which had developed between the US and Yugoslavia during their common struggle in World War II.

As his second point, Mr. Drndic said that the Yugoslav Embassy had been advised by their Consul General in San Francisco that Artukovic was under order of deportation, and requested that in the interests of our mutual relations the Department support the deportation of Artukovic. This was urgent, as the Yugoslavs had learned that three days after the extradition decision, Representative Utt of California had introduced a bill into the Congress to grant Artukovic citizenship.

In reply to Mr. Drndic's representations, Mr. Freers stated that we could not, of course, comment on the merits of the extradition commissioner's decision. He also felt that our relations had steadily improved in recent years and he could not understand the allusion to the harm to the friendly ties our countries had developed during the World War II struggle. While we could understand the Yugoslav reaction to the decision, we could not agree with the comment that it was impossible to receive justice in the American courts. Upon further questioning by Mr. Freers Mr. Drndic clarified the point by saying he was referring to their case, not United States justice in abstract.

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\(^1\) The judgment on the Artukovic case was given on January 16; the Yugoslav Government had been seeking the extradition of Artukovic since 1951.
It was explained to Mr. Drndic that deportation came under the jurisdiction of the Immigration and Naturalization Service of the Department of Justice. However, it was our understanding that there was a warrant for deportation outstanding against Artukovic, which had been suspended during the extradition proceedings. The Department would undertake to query the Immigration Service and find out the status of the deportation proceedings and advise the Yugoslav Embassy.

2 Artukovic was subject to deportation because he had entered the United States under an assumed name in July 1948.

3 In May 1959 a regional office of the Immigration and Naturalization Service granted a further stay in the pending deportation order against Artukovic based on the argument that if deported he would face persecution.

139. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, February 10, 1959, noon.

756. Deptel 495, January 29. In discussion military aid termination agreement Bruner insists new formulation information paragraph no different from old, hence subject same objections voiced by Yugoslavs during October 22 meeting (Embtel 441). According his reasoning Yugoslavs in other subparagraphs paragraph 2 are undertaking certain "negative" obligations i.e., obligation not to do something. Furnishing information on extent to which Yugoslavs carrying out such obligations would be essentially meaningless he contends unless information requirement interpreted mean Embassy can request information at any time on any question relating to equipment furnished under US military

Source: Department of State, Central Files, 768.5-MSP/2-1059. Confidential.

1 In telegram 495 the Department of State instructed the Embassy to raise the termination of the military assistance program at a "high level" in the Yugoslav Foreign Ministry in order to speed its completion. The Department added that existing U.S. legislation prohibited further concessions to Yugoslavia. (Ibid., 768.5-MSP/1-2959)

2 See Document 136.

3 Reference is to text of a draft agreement transmitted in CA-1093; see footnotes 1 and 2, Document 136.
assistance. Such sweeping requirement Bruner emphasized could not be acceptable his government.

Embassy officer observed Yugoslavs appear unduly suspicious our motives, that US only seeks reasonable right keep itself informed on Yugoslav implementation and that it would be absurd expect us preclude for ourselves any possibility raise questions with Yugoslav Government on matters relating implementation. Slovenija incident (ship stopped by French allegedly with Yugoslav arms of US origin aboard)\textsuperscript{4} provides case in point. Bruner expressed appreciation these factors but asserted right of inquiry of course understood even without proposed information paragraph hence paragraph could be omitted. In course further discussion however he expressed interest in idea for further delimiting requirement by substitution phrase “appropriate assurances” for word “information” in new subparagraph 2 (E) (D 441). Bruner stressed that this most informally suggested and added he not sure would be acceptable his superiors who prefer elimination entire subparagraph.

Comment: Negotiations appear for moment at least deadlocked on issues information and disposition surplus or scrap materials. We accordingly agree problems should now be raised high level foreign secretariat where we would point out unsatisfactory status current negotiations and disadvantages this has for both sides. In connection latter point moreover we believe it might be useful allude to current Yugoslav interest in purchase military equipment including most recently additional jet aircraft (Emtbet 748)\textsuperscript{5} and suggest that while such interest regarded sympathetically by US, foreign secretariat will realize that inability break present deadlock creates certain confusion in US-Yugoslav military relationship which may have effect on our ability continue respond affirmatively to Yugoslav requests.

As Department aware Yugoslavs hitherto have been encouraged believe no legal impediment their purchasing spares and equipment exists so long as bilateral in force and we would not wish appear to be reversing this understanding. Moreover as stated Emtbet 748 we continue believe US military sales Yugoslavia are in best interests US in present circumstances. We believe present dispute however over rights information and disposition surplus provide basis for expressing some doubts re future sales. Before making approach we would appreciate Department views on modification information paragraph as suggested above together with indication at least Department’s preliminary

\textsuperscript{4} On January 18 the French Navy seized the Yugoslav merchant ship Slovenija at sea and found a large shipment of arms. The French Government charged, and Yugoslavia denied, that these arms were being shipped to the Algerian revolutionaries.

\textsuperscript{5} Telegram 748, February 5, reported that the Yugoslav Government desired to purchase F-84-G and F-86-E aircraft. (Department of State, Central Files, 768.5622/2-559)
reaction inquiry re aircraft purchases (Embtel 748) and possibilities short term credit (Embtel 608).—

Rankin

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6 Telegram 608, December 15, 1958, reported on discussions between U.S. and Yugoslav representatives regarding the sale of military spare parts. (Ibid., 768.56/12–1558)

140. Telegram From the Department of State to the Embassy in Turkey

Washington, February 20, 1959, 1:25 p.m.

2644. Ankara’s 2325 and Belgrade’s 773. Any significant reactivation Balkan Pact at present juncture appears unlikely for reasons pointed out Belgrade’s 773. Question requires careful study moreover whether renewed emphasis on Pact as military instrument would be in Western interest at this time in context Soviet efforts lessen Tito’s influence among Asians and Africans by depicting him as ally and tool of “imperialists.”

Appears clear however that quite apart from Balkan Pact, encouragement amicable relations among Pact members in Western interest and important for continuing stability in area. Informal Tito stopover in Turkey might contribute significantly this aim. We of course recognize that Turks best judge of this and that matter is one, particularly in present sensitive state Yugoslav-Turkish relations, on which decision must rest entirely with Turks. On other hand believe would be useful should suitable occasion arise for Embassy inquire casually and informally


1 In telegram 2325, February 13, the Ambassador in Turkey suggested that the United States “discreetly” encourage the Turkish Government to invite Tito to visit Turkey in hopes of a resuscitation of the Balkan Pact. (Ibid., 768.11/2–1359) In telegram 773, February 14, Ambassador Rankin reported that “acute Yugoslav sensitivity” at any suggestion of the revival of the Balkan Pact would preclude Tito from accepting an invitation to visit Turkey. (Ibid., 768.11/2–1459)
whether GOT has given thought inviting Tito stop briefly Turkey during his current travels. If query elicits counter question re US attitude, Embassy may state USG would welcome development if GOT deems time and circumstances propitious.

Herter

2 Tito visited Indonesia, Burma, Ceylon, Ethiopia, the Sudan, the United Arab Republic, and Greece on a December 2, 1958–March 4, 1959, trip.
3 The Turkish Government did not extend an official invitation for a visit by Tito.

141. Memorandum of Conversation


SUBJECTS
Current United States-Yugoslav Relations and President Tito's Trip to Near and Far East

PARTICIPANTS
President Josip Broz Tito
Foreign Secretary Koca Popovic
Secretary General Leo Mates
Ambassador K. L. Rankin

On March 17 I asked for an appointment with President Tito, and one day later word came that he would receive me this morning at 11:00 o'clock in his Belgrade Residence. I arrived one minute early and was shown immediately into a large sitting room. President Tito was there with the Foreign Secretary and his Secretary General, who was Yugoslav Ambassador to the United States until last year. The latter acted as interpreter, although Tito dispensed with his services during the first part of our conversation. The President greeted me affably.

I began by remarking that Yugoslav-American relations were good, and involved no serious problems at the present time (Tito interjected,

Source: Department of State, Central Files, 611.68/3-2159. Confidential. Drafted by Rankin and sent to the Department of State as an enclosure to despatch 419 from Belgrade, March 21. The meeting was held at Tito's residence.
with a broad smile, "I am glad"), which I said was due no doubt to his able Foreign Secretary and his former Ambassador to Washington. I added, however, that in view of the President's long absence it seemed desirable to review with him the status of our programs here. Also, I would be grateful if he could tell me something about his trip.

As to Yugoslavia's economic needs, I said that the deficit in international payments would be about $200 million for the year, and of this American support would cover at least $150 million. In addition, negotiations for loans to finance power projects were under way in Washington. In the field of cultural relations, the Ford Foundation exchanges had begun and I hoped that we might arrange a Fulbright program soon. An Eisenhower Exchange Fellowship also had been set up. Regarding military aid, we were not yet agreed on the text of our termination agreement, but I thought that the differences were relatively minor. Meanwhile arrangements had been made for Yugoslavia to purchase needed items and payment terms were being relaxed. I hoped that Yugoslavia would get what was wanted in the way of military aircraft, F-84s and F-86s (Tito said that they also wanted T-33s as well as "Sabres"). In summary, I thought everything was going well.

With regard to his recent extensive travels, I noted that in a speech in Belgrade he had said that the West did not like the trip to the Near and Far East. I said that I knew of no such opposition in the West. Personally I thought the trip was most useful, but of course he couldn't please everybody.

President Tito chuckled at my reference to opinions of his travels, but before starting a rather lengthy discussion of his trip he agreed that our economic arrangements were indeed on a satisfactory basis; also that such differences as existed were relatively minor and could be resolved.

Tito then discussed his trip, through an interpreter, for perhaps half an hour. He first referred to his general satisfaction with the results and then brought up Indonesia and President Soekarno, with whom he had talked at length. He observed that Indonesia had great natural resources but was under-developed. Scattered among many islands, the country was difficult to govern. He had advised Soekarno to be more lenient with outlying areas, specifically Sumatra which provides so much of Indonesia's income. Tito said distrust of the West persists in the country; the recent revolt in Sumatra was supported from "the outside" (he avoided being more specific). Indonesia wanted independence and to

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1 These grants were established in October 1953 to facilitate extended visits to the United States and abroad for journalists, educators, government officials, and businessmen.
avoid becoming part of any bloc or interfering in the internal affairs of other countries. Tito scouted [discounted] any idea that the Djakarta Government would be overthrown by a military coup; the Army supported the same policy of independence.

In Burma Tito found the same desire for an independent and peaceful policy in international relations. The Army was loyal to this idea. As to India, he thought it unnecessary to comment on policy in view of that country’s well known position and Nehru’s many statements, including recent ones. However, he did mention Indian distress over American military aid to Pakistan. The Indians feared that these arms would be used against them, in connection with Kashmir or otherwise, and Tito was glad that we had somewhat curtailed arms shipments to Pakistan.

Ceylon also wanted independence, as did Ethiopia and the Sudan. Tito believed that we need not be concerned about the latter two if the West followed correct policies.

As to the United Arab Republic, he had many talks with Nasser, whose aim was close cooperation among Arab states rather than further incorporations into the Republic. Nasser had learned much in the past two years, he said, and genuinely wanted good relations with the West. This included Britain and France despite the fact that they were enemies in 1956. Much would depend on how the West responded. Tito was particularly impressed by his visit to Syria with Nasser. The enthusiasm he saw displayed by hundreds of thousands of people made evident their support of the union with Egypt. Syria had been a small, exposed country; now the people felt much more secure.

I asked what Nasser thought about the prospects for Iraq maintaining its independence. Tito replied that much had happened since he saw Nasser and he did not know the latter’s opinion. But Tito himself thought there was no danger of Iraq going against the other Arab states. He believed that Arab feeling was too strong in that country.

At this point Tito remarked that he had described impressions gathered on his trip and had suggested defects in Western policy. There were also defects in “Eastern policy,” he added with a smile, but he would not discuss these.

I said that his views on how to deal with the countries he had visited were similar to my own. We also wanted nations to be independent. I remarked that people often quoted from the Bible, “He who is not with me is against me,” but overlooked the passage where Christ spoke of a man doing good works: “For he that is not against us is for us.” I thought that applied to countries seeking genuine independence.

On departing I expressed regret at having missed President Tito’s annual shoot last fall, since I was returning from the United States at that
time. However, I was going bear hunting next week-end. He wished me luck and hoped I would join his shoot this year.

Tito looked very well and seemed in much better spirits than when I talked with him in Brioni last July (see Memorandum of Conversation of July 26, 1958). He sat on a large sofa, sometimes upright and sometimes leaning back, with no indication that his back bothered him. His manner toward me was distinctly more cordial than on the previous occasion.

Our conversation had lasted just under one hour. As in our conversation of last July, Tito used the word “communist” once only, in a passing reference to communist parties in the Near East.

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2 Document 132.

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142. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, March 31, 1959, 9 a.m.

883. Re Deptel 624. In our talk on March 19 Tito in single sentence repeated Yugoslav desire economic aid be placed longer term basis. Since he advanced no suggestions how this might be done I regarded it simply as an aside and omitted reference in memo conversation.

Yugoslav desire for economic aid on longer-term basis is old and oft-repeated one. It reflects some apprehension and irritation about re-appraisals we have had from time to time of our aid program in relation Yugoslav foreign policy. Such re-appraisals imply US aid given in return for good Yugoslav political behavior and thus derogate from Yugoslav position of neutralism and of taking positions on international issues on basis merits specifically related to those issues. Yugoslav desire for longer term aid also reflects natural desire of all countries seeking assistance to get as much as they can on as certain basis as possible.

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Source: Department of State, Central Files, 768.5–MSP/3–3159. Confidential.

1 Telegram 624, March 27, requested a summary of remarks made by Tito on economic aid during his March 19 conversation with Rankin together with Embassy comments. (Ibid., 768.5–MSP/3–2759)

2 See Document 141.
In fact, there are some significant long-term arrangements in our present aid program, and this point might well be made to Nikezic. For example, we have recently made DLF loan to Yugoslavia for Pancic fertilizer plant. Loan provides for disbursement over period three years and for repayment in 20 years. DLF has also authorized loan for diesel locomotives with 12-year repayment period. (Do not know what disbursement period is to be on diesel loan but this point can be checked with DLF in Washington.) Practically all projects under our Technical Cooperation program are now projected through FY 1962. (Exceptions are for projects expected to be completed before then.) These projections are included in project agreements signed between USOM/Y and Yugoslav Technical Assistance administration and are thus known Yugoslav Government. Might also be noted to Nikezic that even without specific commitments US aid to Yugoslavia has in fact been substantial and continuing for many years. With one exception we doubt much more can (under existing legislative authority) or should be done by us to put our aid on longer-term basis.

Exception relates PL 480. We understand legal authority now exists conclude PL 480 agreements for longer than one-year period. In connection with request for long-term assistance Yugoslavs have frequently pointed to problems created for them by uncertainty as to commodities, if any, and amounts they would get from one year to next under PL 480. Given our substantial surpluses and likelihood we shall have PL 480 programs in Yugoslavia for at least next several years, we might well consider concluding, say, two-year PL 480 agreement. Such agreement would cost us little, if anything, and would go considerable way to meeting Yugoslav complaints on short-term nature PL 480 and more generally Yugoslav desire for longer term assistance. Though not decisive consideration, longer term PL 480 agreement would reduce burden and irritations involved in annual negotiations. I assume that if longer term agreement were concluded, it would have to be subject to modification in light later, more up-to-date information on Yugoslav requirements and US availabilities but rest of agreement (for example, provisions on exchange rate and use local currency generated) could remain unchanged.

Aside from question term US aid, Yugoslavs should realize that amounts assistance they have been requesting from US Government

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3 Ambassador Leo Mates left the United States in June and subsequently was appointed Secretary General of the Yugoslav Foreign Office. Marko Nikonovic was nominated to succeed him and presented his credentials to President Eisenhower on October 27.

4 For text of the Extension and Amendment of the Agricultural Trade Development and Assistance Act of 1954, P.L. 85–931, approved September 6, 1958, see 72 Stat. 790. Only the barter provisions of the act were extended beyond one year.
(for example $200 million from DLF or Export-Import) are beyond capacity US given other needs to be met. There is some possibility private credits provided Yugoslavia would modify its institutional arrangements, particularly as regards management and control, with regard such capital. While Yugoslavs much interested in private capital, they give no indication readiness make necessary internal adjustments and provide conditions under which such capital would enter. While we can appreciate and respect Yugoslav desire maintain its own economic and social system, Yugoslav should at the same time appreciate that responsibility lies with them, not US, so far as facilitating inflow private capital is concerned.

Rankin

143. Memorandum of Conversation

Belgrade, May 12, 1959.

SUBJECT
Yugoslav Request for Additional Credits

PARTICIPANTS
Mijalko Todorovic, Vice President FPRY in charge of Economic Matters
Teodosije Glisic, Chef de Cabinet for the Vice President
Svetozar Markovic, Deputy Director, Political Division IV, Foreign Affairs Secretariat
K.L. Rankin, Ambassador of the United States
Leonard Weiss, Counselor for Economic Affairs and Deputy Director, USOM

The Ambassador and Mr. Weiss met with Vice President Todorovic at his request at noon on May 12. Vice President Todorovic is in charge of economic matters within the Yugoslav government. Also present at

Source: Department of State, Central Files, 768.5-MSP/5-1359. Confidential. Drafted by Weiss and sent to the Department of State as an enclosure to despatch 513 from Belgrade, May 13. In addition to the memorandum of conversation, the despatch included a May 12 Yugoslav aide-mémoire, which summarized the points made by Todorovic in his presentation, and two annexes prepared in the Embassy, which analyzed the Yugoslav investment requests.
the meeting were Teodosije Glisic, Chef de Cabinet for the Vice President, and Svetozar Markovic, Deputy Director responsible for economic matters in the department of the Foreign Secretariat concerned with American affairs. Mr. Markovic served as interpreter in the meeting. The session was a long one, lasting an hour and three-quarters, with the Vice President doing most of the talking.

The Vice President opened the discussion by expressing appreciation for the economic assistance given in the past by the United States to Yugoslavia. He noted that this assistance was primarily in the form of agricultural commodities and other raw materials. He recognized that this assistance was very worthwhile and helpful in overcoming the problems and difficulties which Yugoslavia faced from the devastation of the last war, drought, and the economic blockade instituted by the Soviet bloc in 1948. He stated that U.S. assistance had helped Yugoslavia to maintain its independence and policy of coexistence. He said that the Yugoslav government has publicly acknowledged the value of this assistance and that the Yugoslav people are aware of it and its value.

He noted that in addition to agricultural commodities and raw materials, Yugoslavia needs other means to promote its economic development, namely credits for investments. In this field, however, cooperation with the United States has not been as effective as it has been in the provision of agricultural commodities and raw materials. He argued that assistance in industrial investment would enable Yugoslavia to increase its exports to the United States and improve its ability to buy from the United States, and thus result in increased ties between the two countries on a more permanent basis.

He noted that a basic policy of the Yugoslav government is to pull the country out of its backwardness, raise the standard of living, and develop democratic institutions. This policy has had some positive results. Yugoslav resources, however, to carry this policy further are very limited. Yugoslavia has only small possibilities of capital formation, he said, and thus must think in terms of getting foreign assistance to promote its economic development.

Accordingly, he noted that Yugoslavia had approached the United States a year ago for credits for its economic development. ¹ It had then submitted a request for financial assistance in an amount of $200 million, with particular projects being specified for $125 million. ² Yugoslavia submitted this request to the DLF and also got in touch with the Ex-Im Bank and the IBRD. At the same time, he noted, Yugoslavia

¹ Presumably the June 9 conversation between Kohler and Primozic; see Document 127.
² See footnote 1, Document 134.
approached other governments, and Yugoslav enterprises had also contacted economic and financial circles in other countries.

The Vice President then outlined the results of these various approaches. The DLF granted a $22.5 million loan on Pancevo and a $5 million loan for diesel locomotives. He noted that negotiations were in process for DLF credits for two power plants. On the latter he stated that there had been signs that a decision would be made sometime in January and then April but that it now looks as if a decision is likely to be made only with respect to one of the power plants in question and the credits are still uncertain.

As regards the approach to the Ex-Im Bank, he said that Ex-Im, much to the surprise of the Yugoslavs, had taken the attitude that because of Yugoslavia’s existing burden of foreign debt, it would not be able to sustain increased debts. He stated that the Yugoslavs do not consider this an accurate judgment and that Yugoslavia’s capacity to repay exceeds the volume of debts which it now holds.

As regards the IBRD, he noted that Yugoslavia had been informed that it must solve the problem of its pre-war debts before it can expect additional assistance from the IBRD. He stated that Yugoslavia has been trying to settle this problem and that in fact it has settled the bulk of the problem by the settlement it reached last year with the French. He noted that Yugoslavia was now negotiating with the Foreign Bondholders Protective Council. He said that the Yugoslavs have requested the Department to help them develop an appropriate basis for the settlement of these debts. He said that against this background of steps taken and in process for the settlement of the pre-war debts, there is now no impediment on this score, in the opinion of the Yugoslavs, for starting discussions with the IBRD for financial assistance.

He stated that the IBRD has granted in the past year over a half billion dollars in credits and that Yugoslavia did not get anything. He noted that the Ex-Im Bank has also granted substantial credits, without Yugoslavia’s getting anything, and that the DLF has granted very substantial credits in total but that Yugoslavia got only $27.5 million of the total. He said that Yugoslavia has not been able to get any credits from private circles in the United States.

He indicated that in Western Europe the Yugoslavs have been able to get some credits but under inconvenient conditions, for example a short term of repayment (four to six years) and a high interest rate (6 to 7%). He stated that repayment of these credits will engage a great por-

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3 A private organization established during World War II in the United States to represent and assist banks and other corporate entities in recovering prewar assets seized or nationalized during the course of the war.
tion of the new credits which Yugoslavia is getting. He said that when one balances off the new credits against the repayment of existing credits, the net capital inflow is less than $20 million per year.

He stated that Yugoslavia's economic development is thus currently very largely based on Yugoslavia's own resources and that the only substantial external assistance which it has received hitherto has been through PL 480 and MSA. He noted that Yugoslavia has gotten a 3 million pound credit from the United Kingdom, but deprecated it as being very small and said that Yugoslavia had accepted it only because Yugoslavia did not wish to create difficulties in its relations with the United Kingdom.

He said that Yugoslavia's need for credit is of great concern to the Yugoslav government. He stated that the existing situation could have negative effects for the internal development of Yugoslavia and for its foreign position. While the Yugoslavs are seeking to maintain a certain rate of economic development, problems have arisen, notably an increase in unemployment. This increase in unemployment has occurred despite the fact that the existing level of employment is above that projected under the Social Plan. He said that unemployment has increased from 155,000 (representing 5% of the non-agricultural labor force) in February 1958 to 257,000 in February 1959. These figures represent persons who apply for jobs and cannot get them. Some of these people are not completely unemployed since they may work for a few months of the year in agriculture but most of these people are dependent on social insurance. The unemployment reflects the substantial movement from the country to the city.

Under these circumstances, he said, the Yugoslav policy of seeking to develop economically and increase living standards comes into question. These circumstances create a situation which could be exploited by the Soviet bloc and which lends itself to foreign propaganda. He noted that the alternative to seeking additional credits is to slow down Yugoslavia's rate of development and its efforts to raise living standards, but, he emphasized, this is an alternative which his government cannot accept.

In addition to the difficulties this situation creates in relation to the Soviet bloc, he also noted the difficulties which Yugoslavia faces as a result of the process of economic integration occurring in Western Europe. This process, he said, means an increase in the productivity of Western European countries and thus raises problems of increased competition for Yugoslavia.

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4 An official Yugoslav economic planning document designed to set goals for both economic development and the equalization of the standard of living among Yugoslavia's constituent republics.
He stated that in these circumstances Yugoslavia must reassess its position, particularly in view of economic pressure which it was still getting from countries in the Soviet bloc. He indicated with reference to Yugoslavia’s international position that it was providing some credits and other assistance to Middle Eastern countries but it was doing so in large part to maintain its political position there.

In order to maintain its policy of independence, peace and coexistence, a policy which he said it has in common with the United States, Yugoslavia needs a stronger internal basis. He said that Yugoslavia does not exaggerate its international role but he thinks that in the past Yugoslavia’s policy has exercised a positive influence, particularly in relation to other countries seeking to maintain independence and peace. He expressed appreciation that the United States has understood this policy and as a result has provided assistance both directly and through international institutions.

He noted that another reason why the Yugoslav government decided to approach the U.S. government at this time relates to developments in agriculture which were likely to result in a reduction of United States-Yugoslavia economic ties unless some compensatory measures were taken. He said that Yugoslavia’s efforts to increase its agricultural production were now beginning to have results. He indicated that next year Yugoslavia’s need for wheat would be radically reduced and that a similar situation would prevail in edible fats. Accordingly, the need for PL 480 assistance, and the trade and economic ties represented by that assistance, are bound to be reduced. He argued that since Yugoslavia does not want to decrease economic relations with the United States, since, to the contrary, it wants to develop them even further, we must find other forms of economic cooperation to compensate for the likely drop in PL 480 sales.

The most effective way to offset this development would be to provide credits to Yugoslavia to develop its industry, increase its exports to and imports from the United States, and thus give a more permanent and enduring form to economic cooperation with the United States, a cooperation which thus far he believes has proved mutually beneficial.

Based on the foregoing analysis, he said, his government has decided to make an approach to the U.S. government to see whether the latter is prepared to enable an improvement in the economic cooperation between the two countries by providing assistance in the form of credits. In this connection he then outlined the following three problems for which Yugoslavia is seeking a solution:

(1) Provision of credits for the Kosovo and Trebisnjica power projects in this fiscal year, that is prior to June 1, 1959.
(2) Fulfillment of a program of projects amounting to about $60 million. This list of projects has already been submitted to the DLF and is
contained in the Aide-Mémoire which he indicated he intended to submit to us upon the completion of his presentation. He stated that this list contains projects going up to 1961. He indicated that the list contains projects which can be implemented speedily and help develop Yugoslav exports, and thus were projects to which Yugoslavia attached special importance.

(3) The further development of an iron and steel industry in Yugoslavia. He stated that in order to raise living standards and solve other related problems, the Yugoslav government had previously decided to hold down investment in the iron and steel industry. However, he said, the development of the economy has gone so much ahead that Yugoslavia is now having more and more difficulty because of a shortage of steel. Because of balance-of-payments problems it is difficult for Yugoslavia to import steel to satisfy its needs. For these reasons the government has accepted a long term plan to increase steel production in Yugoslavia from 1 million tons to 3 million tons over the next ten to twelve years. Under this program it is planned to increase steel production in Skopje. He said that this project has special importance both economically and politically. It is important economically because of the lignite and iron ore resources existing in Macedonia. It has importance politically because Macedonia is an area particularly subject to foreign pressure and propaganda from the East. He also noted that some of the Soviet bloc countries, for example Poland and Bulgaria, have plans to increase their steel production. With these considerations in mind the Yugoslavs are seeking U.S. assistance for developing a complex of iron and steel works at Skopje and an electric plant at Kosovo.

He accordingly formally requested credits directly from the United States and U.S. support for credits from the IBRD at an appropriate time. He emphasized the importance of Yugoslavia's receiving a prompt answer to this request since the carrying out of Yugoslavia's plans would be affected by the reply. He accordingly requested a reply as soon as possible.

He concluded his presentation with expressions of appreciation for past U.S. assistance. He stated the program of assistance to Yugoslavia has been one of the best which the United States has extended both because the assistance has been used effectively and because the extension of it to Yugoslavia represents a practical demonstration of the U.S. policy of peace and coexistence.

Upon the close of these remarks the Vice President submitted to the Ambassador an Aide-Mémoire summarizing the presentation he had made and requesting U.S. financial assistance. A copy of the Aide-Mémoire is enclosed.

The Ambassador indicated that we were sympathetic and understanding of Yugoslavia's problems and that we want to help to the extent that we can. He noted that there were some problems in providing additional assistance. One, recognized by the Vice President, was the settlement of Yugoslavia's pre-war debts. A second was obtaining adequate funds from Congress. He noted the substantial requests for
assistance from the United States by other countries and the limited amount of funds we have available. A third point relates to the question of what Yugoslavia is doing to bring its international accounts into balance and whether it has a target date by which it intended to balance its international accounts. He stated that this question is important in getting loans from institutions like the Ex-Im Bank and the IBRD which try to work on the basis of economic rather than political considerations.

The Ambassador acknowledged that past U.S. aid has been mostly in the form of agricultural commodities and raw materials. However, he indicated that the provision of this aid has reduced Yugoslavia’s need for foreign exchange and has made foreign exchange available to Yugoslavia for other purposes, including investment. Thus the economic effect has been much the same as the extension of a direct credit for investment purposes. The Ambassador noted that the reduction in Yugoslavia’s need for agricultural products and raw material under PL 480 and other assistance programs was good as evidence of progress in Yugoslavia’s economic development and in bringing its international accounts into balance. He acknowledged that we shall have to seek other forms of economic cooperation but that this raises a world-wide problem, namely that of finding sufficient capital to meet foreign developmental needs, a problem for which we have not yet found a complete solution. He noted in this regard that the development of both the United States and Eastern Europe before World War I had been helped by private capital from Western Europe. He indicated that this type of large-scale private financing is no longer practicable today due in part, so far as Yugoslavia is concerned, to Yugoslavia’s own laws and institutions. He indicated that PL 480, the DLF and other similar assistance are in a sense experimental measures to meet this general problem, and that what the United States can do will have to be limited by the funds available.

The Ambassador indicated that we would send to Washington with our sympathetic comments the Aide-Mémoire presented by the Yugoslavs. He suggested that it would be desirable for Mr. Weiss and possibly other members of the Embassy staff to get together with Mr. Markovic or whomever else the Vice President might designate to assess the problem in greater detail, to determine how much foreign credit Yugoslavia can effectively use annually, to review what other countries can provide, and to consider any other relevant matters.

Mr. Weiss complimented the Vice President on the effectiveness with which he had presented the Yugoslav case. While emphasizing our sympathetic attitude, he noted that Yugoslavia already has an extremely high rate of investment. He pointed out, for example, that approximately 30% of Yugoslavia’s GNP is now devoted to investment. With regard to the substantial development needs which still exist, Mr. Weiss
emphasized the point made by the Ambassador as regards the limited availability of funds from U.S. governmental sources and in this connection indicated our interest in supplementing these resources by capital from private sources. He noted that thus far our efforts to promote a flow of private capital were almost completely without success but indicated the need of continuing to consider this possibility in view of Yugoslavia’s great need in relation to our available resources.

Mr. Weiss also picked up the Vice President’s remarks about continuing economic pressure from the Soviet bloc. He stated that if we are to assess Yugoslavia’s request for credits and its economic position generally, we need more detailed and exact information as to the precise measures which he and other Yugoslav officials have indicated the bloc has been applying against Yugoslavia. He noted that we had requested this information from the Yugoslav government a number of times but thus far it has not been provided and indicated we would appreciate getting it in connection with the current request of the Yugoslav government.

Mr. Weiss noted that there was a good chance of a DLF credit being granted for the Kosovo project if sufficient additional funds were obtained by the Administration in the supplemental appropriation now being sought from the Congress.

Vice President Todorovic indicated his readiness to deal in private credits. He stated that there seems to be some difference of attitude between United States and European investors as regards their willingness to invest in Yugoslavia since Yugoslavia was getting some private credits from European countries. Some of these credits were coming in under guarantees by the government of the private party providing the credits; this was the case, for example, with Italy. But in other cases, for example, Germany, the Yugoslavs were getting credits from private sources without governmental guarantees.

The Ambassador noted that to the extent that the government guarantees the credits, to that extent the private nature of the credit is lost since the ultimate risk-taker is no longer a private party but the government. He also noted that the credits which Yugoslavia has been receiving from European countries are really short to medium term supplier credits, not normal private investments which are out of the question in view of Yugoslavia’s laws and institutions.

In response to our questions Vice President Todorovic indicated that the list of projects provided in the Aide-Mémoire would not replace previous lists and should be considered as the latest, up-to-date request of the Yugoslav government on the United States for financial assistance. He noted that the iron and steel project to which he had referred was not in the list of projects contained in Annex 1 of the Aide-Mémoire.
and previously submitted to the DLF. He said it was not in this list because this project was not intended to be started until next year.

One general remark which the Vice President made as the discussion was breaking up was that Yugoslavia's institutions could develop in a more liberal, democratic way if essential capital assistance and the necessary internal economic base could be provided.

144. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, May 16, 1959, 4 p.m.

1041. Joint Embassy/USOM message. For State, ICA and DLF. Reference: Embassy's telegram 1029.1 Subject: Yugoslav request for credits.

In accordance last sentence, fourth paragraph from end Embtel 1029,2 have initiated arrangements with Foreign Secretariat (Markovic) for our review with Yugoslavs all matters relevant Todorovic request. Markovic agreeable this procedure but expressed concern on delay involved responding Todorovic request. He noted Todorovic requested reply soon as possible in view fact Yugoslav plans affected by our decision. He also noted Todorovic requested credits for Kosovo and Trebinjica by July 1.

We indicated that decision Kosovo and Trebinjica dependent on magnitude DLF Congressional appropriation currently being sought by administration and not contingent in our judgment on review we now intending to undertake with Yugoslav Government. We indicated, however, that we doubted Washington would be prepared approve credits beyond Kosovo and Trebinjica without Embassy recommendations and that we did not feel we could make such recommendations until review in question completed.

Source: Department of State, Central Files, 768.5–MSP/5–1659. Confidential.

1Telegram 1029, May 13, summarized the May 12 conversation between Rankin and Todorovic (ibid., 768.5–MSP/5–1359); see Document 143.

2It reads: "Indicated we would send aide-mémoire to Washington with our sympathetic comments and suggested that members of our staff get together with officials in Foreign Secretariat or whomever else Vice President may designate to review Yugoslav needs, see how much credit Yugoslavia can effectively utilize annually, review assistance other countries might provide, and consider any other relevant related problems."
In accordance foregoing, would appreciate decision on Kosovo and Trebisnjica soon as possible after funds situation clarified.

As far as balance Todorovic request concerned, would appreciate any preliminary views you may have on proposal. Such views would be helpful for us in our review matter here, including discussions Yugoslavs.³

Rankin

³In telegram 751 to Belgrade, May 23, the Department of State reported that while chances of DLF funding for the Trebisnjica project had greatly improved, final agreement on the project before July 1 was unlikely and that no action had been taken on the Kosovo project and Export-Import Bank loan request. (Department of State, Central Files, 768.5-MSP/5-1659)

145. Editorial Note

The Operations Coordinating Board Operations Plan for Yugoslavia was reviewed and minor changes were made in its text by the OCB Board Assistants at a May 29 meeting. The text of the 1958 version of the report is printed as Document 133. A copy of the 1959 revised version is in Department of State, OCB Files: Lot 62 D 430, Yugoslavia.

146. Telegram 2947 From the Embassy in Greece to the Department of State

Athens, June 25, 1959, 3 p.m.

[Source: Department of State, Central Files, 668.81/6–2559. Secret; Noforn; Limit Distribution. 2-1/2 pages of source text not declassified.]
147. Despatch From the Embassy in Yugoslavia to the Department of State

No. 55 Belgrade, July 30, 1959.

REF

Rome’s tel. to Dept. 297 rptd info Belgrade 6

SUBJECT

Escapee Flow from Yugoslavia

Conversations here with officers of the Austrian, Greek and Italian Embassies confirm drops in the flow of Yugoslav escapees to their countries.

The consensus of opinion at those embassies is that improving Yugoslav economic conditions, including the coverage of broader sections of the population by social insurance measures, have led to a decline in the number of escapees. In addition, both the Italian and Austrian Embassies report that escapees are being returned to Yugoslavia in sizeable numbers as economic rather than political refugees. While the Greek Embassy states that the flow of escapees from Yugoslavia to Greece has never been large, it concurs with the Italian and Austrian Embassies here that “the cream” of potential Yugoslav escapees has probably already been skimmed and that, therefore, fewer persons recently have been trying the escape routes.

In view of reports that many Yugoslavs have had difficulties this year in obtaining passports, and since some escapees in the past have reportedly crossed borders legally and then claimed asylum on political grounds, the Austrian Embassy was asked whether it had noticed any decline this year in Yugoslav visa applicants. In this connection, the Austrian Embassy said that from January 1 to July 28, 1958, it had issued 2,499 visitor’s visas and 11,798 transit visas. During the same period in 1959 the Austrian Embassy issued 2,747 visitor’s visas and 10,435 transit visas. Hence, the Austrian Embassy did not think that the decline in escapees was in any way attributable to a more stringent policy of passport issuance. That Embassy also reported that a steady flow of Volksdeutche in Yugoslavia were being granted documentation enabling them to emigrate to West Germany and other countries.

Regarding a tightening of border controls, neither the Italian Embassy nor the Austrian Embassy knew of specific measures recently

Source: Department of State, Central Files, 868.00/7-3059. Confidential. Drafted by Wilson. Repeated to Rome, Athens, Vienna, Trieste, Zagreb, and Sarajevo.

1 Telegram 297, July 22, reported a drop in the number of Yugoslav refugees entering Italy. (Ibid., 768.00/7-2259)
inaugurated in this direction. However, the Austrian Embassy understood that persons who had accepted money and had served as guides in aiding escapees had been subject recently to severe penalties. The Italian Embassy understood, however, that the new Yugoslav penal code, which is as yet unpublished, probably will weigh less heavily on illegal border crossers than its predecessor and that, therefore, a future increase in escape efforts was conceivable.

During the course of the discussion, the Italian Embassy noted three rather dramatic, recent, successful escapes to Italy—the hijacked Yugoslav Airlines aircraft with one escapee aboard (see Embassy Despatch No. 26, July 17, 1959);² a Yugoslav twin engine military Beechcraft-type aircraft with only one aviator aboard; and a group of Yugoslav escapees picked up in the Adriatic from a small boat and deposited in Italy by a Greek steamer.

While the urge to leave Yugoslavia undoubtedly continues great in the hearts of many, improving economic conditions may well have caused numerous would-be escapees to think twice before making an effort which could result in apprehension by Yugoslav authorities or a return to Yugoslavia by foreign authorities as economic rather than political refugees. In this connection, the uncertain future facing many escapees even after receiving asylum abroad has undoubtedly proved another discouraging factor.

For the Ambassador:  
Robert B. Hill  
First Secretary of Embassy

²Not printed. (Ibid., 768.00/7-1759)
148. Editorial Note

On July 28 the Yugoslav Government informed the United States that it accepted the proposed U.S. text of the military aid termination note. The Yugoslav Government had previously (October 23, 1958) accepted the U.S. proposed text of a note concluding an agreement for the purchase of military equipment. The two agreements came into effect simultaneously through an exchange of notes in Belgrade on August 25, 1959. For text of the agreement terminating military aid, see 10 UST 1468. For text of the agreement relating to the purchase of military supplies, materials, and services, see 10 UST 1474.

149. Memorandum of Conversation

Washington, October 5, 1959.

SUBJECT

Call by the Yugoslav Foreign Secretary: US-Yugoslav relations and the general international situation

PARTICIPANTS

The Secretary
The Yugoslav Foreign Secretary, Mr. Koca Popovic
The Yugoslav Ambassador, Mr. Nikezic
Mr. James S. Sutterlin, EE

Mr. Popovic opened his conversation with the Secretary on October 5 by stating that in his view relations between Yugoslavia and the US have been continually improving and that mutual understanding between our two countries has grown to the point where our relations can now be characterized as entirely satisfactory. Mr. Popovic added that there was, in his opinion, every prospect of continuing good relations between our two countries. The Yugoslav Foreign Secretary then went on to say that his Government is pleased with the general development which is taking place at the present time in the field of international rela-

Source: Department of State, Central Files, 611.68/10-559. Confidential. Drafted by Sutterlin and approved in S on October 9.
tions. With all modesty, he said, Yugoslavia feels that it has contributed
some small amount to the lessening of tension which has become notice-
able. His country, he emphasized, desires to do whatever it can to en-
courage further relaxation in world tensions. In this connection, he
asked the Secretary for his views on the significance of Mr. Khru-
shchev's visit to the US and the new developments in Soviet-American
relations.¹ The Secretary replied that the significance of such an event as
Mr. Khrushchev's visit cannot be immediately judged and it will take
several years before we can really estimate its effect. He said that he was
convinced that Mr. Khrushchev was sincere in at least one respect and
this was concerning the onerous nature of nuclear armament expenses.
That he was a dedicated Communist there could be no doubt and he
seemed firmly convinced that Communism is the system of the future.
While there was undoubtedly much propaganda content in his state-
ments here, the Secretary said that he felt that there was a grain of sincerity
in his proposals on disarmament.

The Secretary then commented that we have been particularly in-
terested in observing the very different nature of Khrushchev’s visit to
Communist China.² He pointed to the unprecedented fact that there had
been no communiqué issued by the two governments on Khrushchev’s
departure and noted that in the speeches given by Khrushchev and Sus-
lov there had been scarcely a mention of China as a country but only
remarks on the Communist system of government. Particularly note-
worthy the Secretary thought was the fact that the Russian leaders had,
during their stay, indicated no support for China in its current conflict
with India.³ The Secretary then said to Mr. Popovic that Yugoslavia can
no doubt judge the situation better than the US. Mr. Popovic stated that
even on the basis of a conservative analysis it was necessary to conclude
that there are differences between Communist China and the Soviet
Union. It is very evident, he said, that the Soviet and Chinese attitudes
toward India, Yugoslavia and the United Arab Republic, for example,
are far from identical; but, he added, it is difficult to estimate the seriousness of disagreements between the two countries. In the Yugoslav view,
he said, it is obviously in their mutual interest to continue to cooperate

¹ Khrushchev visited the United States September 15-27. In a speech to the U.N.
General Assembly on September 18, he unveiled a new Soviet disarmament proposal that
called for general and complete disarmament. His meetings with President Eisenhower at
Camp David, September 25-27, resulted in a general improvement in the tenor of So-
viet-U.S. relations. For documentation, see Part 1, Documents 108-139.
² September 29-October 4.
³ Disagreements over boundaries between the two states in the Ludatik and Lorgiu
areas led to armed clashes in Lorgiu and a heated exchange of correspondence between
Chinese Prime Minister Chou En-lai and Indian Prime Minister Nehru.
and therefore Yugoslavia does not expect a serious break between them in the near future.

The Yugoslav Foreign Secretary remarked that his Government has been happy to notice an amelioration in its relations with the Soviet Union. He felt that the improvement in the Soviet attitude toward Yugoslavia was based on two considerations: (1) the anti-Yugoslav campaign conducted by the Soviet Union and its bloc had begun to have negative effects on Soviet relations with uncommitted countries in Asia and Africa; and (2) at a time when the Soviet Union is endeavoring to give a very positive orientation to its public posture it was illogical and counter-productive to pursue an overtly negative policy toward Yugoslavia. Mr. Popovic continued that while Yugoslavia recognizes the reasons behind the changed Soviet attitude for what they are, it considers the results very real and therefore as a favorable turn in events. We believe, he said, that it is necessary to utilize the positive elements in a situation and we take the same attitude toward current Soviet interest in disarmament and détente.

Later in the conversation the Secretary referred to the draft Fulbright Agreement which the American Embassy in Belgrade had presented some months ago to the Yugoslav Foreign Secretariat for consideration. He said that the fact that we had received no comments on this draft from the Secretariat was quite probably due to the summer vacation, but he wondered if Mr. Popovic had any thoughts or objections concerning such an agreement which he would like to express. The Yugoslav Foreign Secretary did not appear to be aware of the status of negotiations on a Fulbright Agreement but stated that in general, while technical difficulties often arise in such negotiations, the attitude of the Yugoslav Government was positive. The Yugoslav Ambassador said that he would cable to Belgrade on the subject so that the matter could be looked into before Mr. Popovic’s return to Yugoslavia.

At the close of his meeting with Mr. Popovic, the Secretary related how when he was traveling in Yugoslavia as a member of Congress in 1945 a young lady from Politika had been assigned to accompany him. He said that she had been educated at the Sorbonne and at Moscow and was a most articulate and persuasive person although she was entirely oriented against the US. The Secretary said that he had lost her name which he regretted since he had told her that he would like for her to see for herself the US and then judge if all of her conclusions were correct. This, he said, was in August or September of 1945. The girl, he added, was the wife of the Assistant Secretary of Agriculture, was from Montenegro and had taken a prominent part as a Partisan leader in the war.

4 Not found.
Mr. Popovic said that there had been many such women and that as a result identification would be difficult, remarking in this connection that President Tito's wife had, herself, been a Partisan and had fought under his command.

In taking his leave Mr. Popovic wished the Secretary good luck and health in carrying out his arduous duties. He said that he hoped they might meet again in New York at the UN or in Washington.\(^5\)

\(^5\)No further record of conversation between Herter and Popovic has been found.

150. Letter From Representative Chester Bowles to the Counselor of the Embassy in Yugoslavia (O'Shaughnessy)

November 10, 1959.

DEAR ELIM: My visit with Tito was well worthwhile although nothing particularly momentous came out of it. I doubt that you would have learned enough from it to justify your taking the long trip from Belgrade and return. Moreover, I believe Tito may have talked a bit more freely with me than he might have done if a State Department representative had been present.

Because the visibility at Belgrade airport delayed our takeoff, we arrived at Brioni two hours late. This reduced the length of our actual conversation to a little over an hour. As you know, Tito can speak simple English, and he apparently understands English well. He spoke in Serbo-Croatian, however, when we discussed complicated topics. Then the translation was handled by Mates, his Secretary General, who met us at the dock at Pula and stayed with us throughout.

Tito appeared well and strong, and was most cordial. I stated at the beginning that I had come to see him in a non-official capacity, that on some points my views might differ from our official American position, that I would speak frankly, and that I hoped he would do likewise. I added that I had no intention of publicizing our discussion in any way.

I opened the conversation by reminding him of a talk that I had had with him in March, 1957, on my way back to the States following a visit to the Soviet Union. I commented that he had then noted the changes

Source: Department of State, Yugoslav Desk Files: Lot 65 D 121, Field Administration. Secret. Written en route from Brioni to Munich. Chester Bowles (D-Connecticut), member of the House Committee on Foreign Affairs, served as Ambassador to India and Nepal, 1951–1953.
that were taking place within the Soviet Union, and that although events in Budapest might slow down further changes, the slowdown would be only temporary. I also reminded him that during this visit he had agreed that China might represent a bigger question mark for the long haul than the USSR itself.

Tito replied that changes had taken place within Russia as he had assumed they would, and that even greater and more fundamental changes might lie ahead. He then asked what I felt Khrushchev's reaction might be to his recent trip to the United States.  

I said that one thing at least must have been clear to Khrushchev and that was our inherent good will towards all people and our strong hope for a more durable peace.

Tito immediately added that he was glad that President Eisenhower was going to India, because it was important to assure India that she has good friends. However, he hoped that this did not indicate a long postponement to the summit meeting.  

I replied that although some of our allies were rather cool to a summit meeting, I assumed that one would be held, perhaps in the early spring. Tito said that he hoped this was the case, as it was vitally important not to allow the world situation to deteriorate again.

I mentioned in passing that many people I had talked to in his country and ours hoped that sooner or later—possibly on his way to Moscow in the spring—President Eisenhower would visit Yugoslavia, and that after the 1960 election furor died down, Tito himself might come to the United States. He offered no comment.

I then changed the subject to China. What did he think of developments there?

Speaking with considerable vigor, Tito said that he was very concerned about China and felt that the situation there was politically very dangerous. He thought that the Soviet Union was also concerned and that it would exert increasing influence on China through economic pressures to patch up the conflict with India. It was difficult for him to understand why the Chinese could be so foolish as to destroy the goodwill that they had worked so hard to create in India.

I suggested that a very profound difference existed between the Russian and Chinese situation. Russia is a relatively satisfied nation

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1 See footnote 1, Document 149.
2 Eisenhower's plans for an 11-nation good will tour were announced on November 4. The President visited India December 9-14.
3 Khrushchev's visit to the United States revived prospects for a summit meeting to deal with the Berlin question and other related international matters.
4 Indian-Chinese differences over their border led to a major incident in Ladakh, October 20-21.
economically, with few serious, internal, non-political pressures to expand. By contrast, China with 650 million dynamic people will be faced with a basic inadequacy of resources over the years and with tempting economic, political and military vacuums in Southeast Asia containing the very resources of land and minerals which China herself lacked. I said that many of us found an alarming similarity here with the situations which set Nazi Germany and imperialistic Japan on the road to open aggression. Tito nodded his head and interjected: "Of course, Lebensraum".

I added that many of us felt that this situation called for a dual policy on the part of the United States and other like-minded nations: first to make it clear to the Chinese that we would vigorously oppose any attempted military aggression with whatever forces were required; second, to consider as conditions enable us to do so, what measures we might take to make it easier for China to live within her present boundaries.

I suggested that possibly we had as much to fear from the failure of China's present economic efforts as from their success, and asked whether he thought it might be possible gradually to develop some degree of mutual Soviet-American understanding and even coordination in dealing with the problem.

Tito commented that this was an interesting analysis which might under certain circumstances prove to be valid. At the moment he did not feel that within China the economic pressure for expansion could be as great as I suggested. Russia no doubt was worried, but it was unlikely that the Chinese at this stage would totally ignore Soviet desires for stability in Asia, although they seemed at the moment to be making a show of independence, and even intransigence.

What concerned him more was another long-range problem. China was seeking to maintain her ties with the overseas Chinese and assert their status as Chinese citizens. Was this not an effort to recapture the vision of an all-powerful, imperialistic China?

Tito went on to say that our China policy had contributed to the present danger by isolating China and creating an opportunity for Mao to establish America as the enemy. This was dangerous for everyone and could lead to war. The answer for us was to accept China as a fact and gradually to attempt better relationships. That was why Yugoslavia had always recommended recognition of Peking and her admission to the United Nations.

When I asked if he thought the Kremlin was any more anxious than our own government was to see China in the UN, he laughed. Until recently he suspected the answer was "no", and the proof was that the USSR always brought up the question when it was least likely to be
soberly discussed. However, he now felt that the Kremlin sincerely wanted the Peking government admitted to membership in the UN because it would have a sobering effect on Chinese policy.

I pointed out that the China issue in America was a highly emotional one for very understandable reasons. We have had a long record of friendship of China—our missionary efforts, the Open Door Policy, Wilson’s rejection of Japan’s demands, and indeed the Pearl Harbor attack itself which to a degree was Japan’s reaction to our refusal to accept Tokyo’s domination of the China mainland.

I added that we had done everything in our power to persuade the Generalissimo to introduce reforms within China while he still had time, but that he had greatly underestimated Mao’s military capacity. So indeed had Stalin and we Americans as well. Had their foresight been better, the Kremlin might have preferred a divided China just as they now prefer a divided Germany.

Whatever the possibilities might have been for establishing relations with the new Chinese regime, they were destroyed by China’s entry into the Korean War in 1950.

Nor was the situation any easier now. Even if we agreed to exchange ambassadors and to withdraw our opposition to the Peking government’s entrance into the UN, China would insist on her sovereignty over Taiwan and block Taiwan’s emergence as a separate nation. Thus, I emphasized, recognition was an academic issue and was likely to remain so.

Americans disagree, I said, about our position on Quemoy and Matsu, but there was no disagreement on our all-out commitment to defend Taiwan. Moreover, the 9 million people of Taiwan, regardless of Chiang, have a right to their own future. They are highly literate, relatively prosperous with widespread land ownership, and strongly anti-Communist.

If allowed to vote in a plebiscite, they would undoubtedly choose independence as their first choice with some association with Japan possible as a second choice. With the advent of new weapons and missile systems, Taiwan’s military significance for us will decrease, I added, but the people of Taiwan, like the people of Burma or Cambodia, would remain as important to us as the people of Berlin.

Tito listened to all this intently and asked many questions about the future of Taiwan and the characteristics of the Taiwanese. He said that my view was new to him and very interesting. He remarked, however, that American policies customarily lagged behind events. In Yugoslavia during the war, for instance, it took the United States much longer than

5 Chiang Kai-shek, President of the Republic of China.
it did the British to recognize the potential role of the Partisans. The same lag in American policies appeared in Iraq, Algeria, and elsewhere. Cuba too was an example, although it was easy for the Yugoslavs to identify themselves emotionally with Castro’s guerrilla struggles because of their own experience. Now, he agreed, it is necessary for Castro to show that he can govern.

I agreed that there was something to this criticism and that indeed most Americans would accept it in greater or lesser degree. However, among other things he had overlooked the extraordinary record on land reform, cooperatives and labor organizations which MacArthur had achieved in Japan; the many improvements which we had encouraged on Taiwan; our strong backing of Nehru’s economic efforts in India; and indeed the aid which we had given “socialist” Yugoslavia.

I added that there was a growing understanding in America of the importance of genuine social, economic and political reforms in world affairs, that this was in line with our own revolutionary heritage, and that as a Democrat I could say that this understanding included all the likely candidates for the Republican as well as the Democratic Presidential nominations. I said that the American people had gone through a tense period extending from the stock market crash of 1929, through the Great Depression, World War II and the huge demands on us following the war, and that a desire to catch our breath and recharge our batteries was inevitable. Now, I felt, we were emerging from this period of slowdown and that the next few years, regardless of the outcome of the 1960 elections, would see a resurgence of America’s creative energies both at home and abroad.

Tito said he hoped that this was the case, and the friendship and understanding between Yugoslavia and America would deepen.

I concluded by asking him for his view on Germany and his expectations concerning the future of Berlin.

Tito replied that everyone, including the West and East Germans, was becoming adjusted to a divided Germany, that there was no other likely outcome, that this was probably a good thing from the standpoint of everyone’s interest, and that the need therefore was to develop acceptable relations between the two Germanys.

I asked how in this case could we settle the Berlin question since Berlin’s only logical role was the capital city of a United Germany. He agreed that this was difficult but said that Khrushchev’s suggestion that Berlin might become a free city could serve as a basis for negotiation— if not now, some time in the future.

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6 For text of this proposal made in a November 27, 1958, Soviet note, see American Foreign Policy: Current Documents, 1958, pp. 591-596.
I asked him if he thought Khrushchev understood that under no circumstances would we relinquish our position in Berlin until an overall settlement could be reached that was acceptable to all concerned. He said he was certain that the Kremlin understood this and that there would be no reversion to threats. I would have liked to explore his views on Germany and Europe more fully, but at this point we ran out of time.

I brought the discussion to a close by saying that I hoped to be in Berlin itself by midnight and to spend a few days there and in Bonn. He said that he understood the rebuilding of West Berlin had been extraordinary and that he would like to see it.

On the way to the door I told him that our economic experts had high praise for the competence of his economic planners and administrators. He said that he was glad of this, but that much remained to be done.

This is the story. Nothing unusual or unexpected was revealed, but I felt that I was able to improve his understanding of us and to broaden his perspective on several questions.

I hope that ways will be found for more Americans to see Yugoslavia and Tito on both an official and unofficial basis. You know better than I how this can be encouraged, but I am convinced that it is important. If the President had chosen to visit Belgrade he would have received an enthusiastic welcome which might have had important implications further East.

Thank you again for all you did to make my time in Yugoslavia both pleasant and informative.

With my warmest regards,

Chet Bowles7

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7 Printed from a copy that bears this typed signature.
151. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, November 23, 1959, 6 p.m.

486. Rome for Lister. Tito at Nis November 22 expounded Yugoslav view that greater emphasis must be given UN in achieving world relaxation tensions. Summit meetings which conducive East-West rapprochement he said are highly desirable if they not indeed precondition any general relaxation. Khrushchev visit and forthcoming meetings other high government officials 1 thus welcomed, he asserted but benefits active coexistence can only be finally realized with elimination bloc concepts and development coexistence on universal basis.

Turning to immediate problems within Balkans Tito declared Yugoslavia had always favored any positive approach to general rapprochement and had only resorted to Yugoslav Greek Turkish agreement when broader understanding proved impossible. Under this agreement he said Greek Yugoslav relations had prospered. Now with elimination Cyprus issue 2 there are no reasons why similar improvement should not take place with Turkey and he had recently said as much to Turkish Ambassador. With respect Bulgaria, Rumania and particularly Albania, however, situation is such “there are not realistic foundations for a meeting” (presumably along lines recent Rumanian proposals). 3 Unless bilateral relations improved Tito said “this meeting would be pure propaganda and it would bring more harm than benefit”.

Comment: In discussions Tito speech at Nis with senior Foreign Secretariat officials Rukavina and Primozic both agreed today that statements regarding desire improve relations with Turkey rather than engage in “propagandistic” general Balkan conference represented important expression current Yugoslav attitude. Rukavina moreover volunteered additional remark that some suggestion has been made (he

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1 During November and early December, British Foreign Secretary Lloyd, German Chancellor Adenauer, Italian Prime Minister Segni, Foreign Minister Pella, and President Eisenhower made visits to other Western capitals to discuss plans for a summit meeting. These meetings culminated when the four Western heads of state met in Paris on December 19.

2 Accords signed in London on February 19 by the Greek, Turkish, and British Prime Ministers established a Republic of Cyprus on February 19, 1960.

3 On June 8 the Romanian Government proposed a meeting of Balkan Prime Ministers with the objective of completing a collective security treaty and establishing a nuclear-free zone in the Balkans with a great power guarantee for both agreements.
failed specify by whom) that Albania might be simply ignored as way around difficulty posed by strained Yugoslav-Albanian relations thus enabling other Balkan countries achieve harmonious settlement their differences. According Rukavina Tito speech at Nis should make clear that any such suggestion completely unacceptable to Yugoslavs who adhere firmly to their now established position that substantial improvement bilateral relations must precede any generalized “settlement” (for further discussion this point see Embtel 416). Any Balkan rapprochement without Albania Rukavina added would only free that country to continue its disruptive activities thus rendering rapprochement meaningless.

Judging from Rukavina, Primozic further remarks as well as other official comment heard recently Tito references to necessity eliminate blocs in order realize benefits coexistence also represented something more than mere repetition familiar Yugoslav positions. Thus in separate conversations both men asserted East-West rapprochement without assurance of progress toward elimination blocs would only lead to kind of partition of world along lines at one time favored by Stalin. Such partition they said could only be harmful to interests uncommitted countries in manner certain to provoke rather than eliminate further tensions.

Rankin

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4 Yugoslav-Albanian relations deteriorated during 1958 as Albania joined in the Communist bloc campaign against Tito’s “revisionism.” In addition, Albania accused Yugoslavia of mistreating its Albanian minorities and renewed its territorial claims against Yugoslavia. The Albanian Minister to Yugoslavia was recalled in August 1958 and returned only in the fall of 1959.

5 Telegram 416, November 3, reported on an editorial in the Belgrade daily Politika that indicated Yugoslav interest in improving its relations with other Balkan governments. (Department of State, Central Files, 033.6166/11-359)
152. Operations Coordinating Board Report


REPORT ON YUGOSLAVIA (NSC 5805/1)\(^1\)
(Approved by the President April 16, 1958)

(Period Covered: December 10, 1958 through December 23, 1959)

1. Independence Maintained. During the past year there has been no basic change in the status of Yugoslav independence, nor has there been any lessening in the Yugoslav Government’s determination to maintain this independence.

2. Threat to Communist Unity. The propaganda campaign which the Soviet bloc initiated against Yugoslavia in the spring of 1958 has been substantially moderated, presumably at the direction of Moscow, and state relations between Yugoslavia and bloc members have, except in the cases of Communist China and Albania, reassumed an air of normalcy. The economic assistance which was suspended by the Soviet Union at the time of the 1958 rift has not been resumed, however, and while both the bloc and Yugoslavia are currently avoiding heated polemics, Moscow has made it perfectly clear that Yugoslavia remains outside the pale and its revisionist practices constitute the greatest single threat to Communist unity. The Soviet bloc campaign launched against Yugoslavia was an integral part of the Soviet effort to reestablish bloc unity and to prevent further revisionist contamination in Eastern Europe. Thus the Soviets, themselves, recognized the threat which Yugoslavia continues to pose to the unity of the Moscow-dominated Communist community. Whether the bloc has been temporarily successful in preventing further revisionist inroads cannot be judged at such short perspective.

3. Opposition to Soviet Imperialism. As in previous years, Yugoslavia during the past twelve months has on international issues more frequently taken positions similar to those of the Soviet Union than to those of the West. One of the most notable in this connection has been the Yugoslav position on Germany. On certain questions, particularly on points of difference between the Sino-Soviet bloc and uncommitted countries, Belgrade has departed radically from the Moscow point of

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Source: Department of State, OCB Files: Lot 62 D 430, Yugoslavia. Secret. In an undated memorandum attached to the source text, Bromley Smith, Executive Officer of the OCB, noted that the Operations Coordinating Board concurred in this report at its meeting of December 23 and instructed the OCB Board Assistants to prepare a revised Operations Plan for Yugoslavia for the next semi-annual appraisal of Yugoslav affairs.

\(^1\) See Documents 120 and 122.
view, however, and there has been no reason to doubt that the Yugoslav Government assumes its various positions in the international field on the basis of its own conclusions as to where its best interests lie. There has been no evidence, and in fact no grounds for any suspicion, that Yugoslavia is cooperating with the Soviet bloc in furthering Soviet imperialism. On the contrary, Yugoslav authorities have continued to maintain that socialism can best flourish in countries free to develop without outside intervention.

4. **Useful Diplomatic Activity.** During the past year the Yugoslav Government has been particularly active in seeking and developing economic and political relations with the uncommitted and/or newly developing areas of Asia, Africa, and Latin America. Certain of the countries of these areas have evidenced interest in Yugoslav internal policies. By improving its relations with countries of these areas Yugoslavia has strengthened its position vis-à-vis Moscow and, at the same time, has through its own recent history offered persuasive evidence of (a) the political motivation of Soviet assistance, (b) the consequent dangers of becoming overly dependent on Soviet economic aid, (c) the hypocrisy of Soviet assertions of friendship and support for all neutral nations, and (d) the fact that U.S. aid entails no internal interference or compromise of neutrality. However, should it develop that Yugoslavia is encouraging the adoption of internal policies of a Communist orientation in Cuba or other Latin American countries, this would pose new problems for achieving U.S. policy objectives in the area.

5. **Increased Contacts With West.** Exchanges between Yugoslavia and the United States have continued to grow and, as a result, an increasing number of influential Yugoslavs have become better acquainted with liberal economic practices and a free and democratic society. There have been a number of visits by high-level American officials to Yugoslavia and by prominent Yugoslav representatives in the United States. Western tourist travel to Yugoslavia has increased and an American cruiser with the Commander of the Sixth Fleet aboard paid a highly successful visit to Split. Yugoslavia has made a real effort to strengthen and improve its relations with Italy and Greece during the past year, and a sound basis of economic cooperation and political understanding appears to be developing between Yugoslavia and these two free world neighbors.

6. **Regime Remains Authoritarian.** The influence of this gradual increase in contacts with the West cannot be measured in a single year and it cannot be said that the past twelve months have seen the development

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2 The U.S.S. *Des Moines*, flagship of the U.S. Sixth Fleet, visited Split October 17–20. Vice Admiral George W. Anderson, Commander of the Sixth Fleet, was on board.
of a notably more liberal economy or democratic government in Yugoslavia. The Yugoslav regime remains authoritarian and continues to deal strictly with any internal political recalcitrants. It is encouraging, however, that there has been no tendency to reintroduce earlier repressive policies and that the Yugoslav Government has sought further contact with the West rather than the isolation of the Yugoslav people from Western influence.

7. Economic Progress. While Yugoslavia continues to have a large balance of payments deficit and inadequate foreign currency reserves, its economy has made significant progress in the past year, with a notable rise in agricultural production and a steady increase both in industrial production and in export trade. This has been accomplished in spite of the cancellation of the large-scale Soviet bloc credits and is an indication that the heavy investment policy of the Yugoslav regime, together with the assistance it has long been receiving from the United States and other Western countries, has begun to show significant results in the economic growth of the country. The Yugoslav Government has interpreted this progress as justification of its policies of decentralization, workers’ self-management, and non-coercion of the peasants. This would seem to bode well for the continuation of these policies in the future.

8. Maintenance of Armed Strength. After prolonged negotiations the United States and Yugoslavia reached an amicable agreement on the termination of the grant military aid program. However, Yugoslavia is permitted to purchase military equipment, materials, and services from the United States. Credit terms of 120 days from date of delivery are available when these purchases are made from the stocks of U.S. military departments. It has purchased 78 surplus F-86E aircraft from the U.S., thus indicating that it has decided to rely primarily on U.S. aircraft for military purposes. This purchase, together with expected spare part purchases in Greece, should halt a general trend toward deterioration of the Yugoslav air force. The purchase of spare parts and maintenance items for Army matériel has been accomplished on a continuing basis through Mutual Security Military Sales and indicates an intent, within resources, to maintain MAP-furnished Army equipment. The Yugoslav military establishment continues to be hampered, however, by a lack of access to the latest types of equipment and by insufficient foreign currency to purchase more than limited amounts of spare parts and replacements. This may pose a problem in the future but for the present Yugoslavia’s armed strength appears sufficient to discourage an attack by any of its Soviet-dominated neighbors.

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3 August 25; see Document 148.
9. **Policy Review.** The agencies represented on the Working Group on Yugoslavia have reappraised the validity and evaluated the implementation of the U.S. Policy Toward Yugoslavia (NSC 5805/1) in the light of operating experience. They further believe there is no need for the National Security Council to review the policy at this time and that there are no developments of such significance as to warrant sending a report to the National Security Council.

153. **Memorandum of Conversation**


**SUBJECT**

Call of the Yugoslav Ambassador

**PARTICIPANTS**

The Yugoslav Ambassador, Marko Nikezic
The Under Secretary
Mr. J. L. Katz, EE

Ambassador Nikezic stated that he wished to inform the Under Secretary about two matters—Yugoslavia’s need for investment loans and the intention of the Yugoslav Government to simplify its foreign exchange system.

As regards the matter of investment loans, the Ambassador stated that Yugoslavia was grateful for the very great assistance afforded by the US over the past ten years. This aid, mostly in the form of food and raw materials, played an extremely important role in stabilizing the Yugoslav economy. The requirements of the Yugoslav economy had now shifted, however, from this type of assistance to a need for investment capital. The Ambassador pointed out that Yugoslavia now devoted 25% of its national income to investment but it required capital from abroad as well, since development was a basic condition for its policy of independence. Without assistance from abroad, Yugoslavia would be unable to maintain pace with its neighboring countries. The Ambassador

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Source: Department of State, Secretary’s Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Katz and approved in U on March 28.
recalled in this connection his statements at previous meetings concern-
ing the political importance of economic development to Yugoslavia.

The Ambassador then outlined the sources of foreign financial aid
available for Yugoslavia. He pointed out first that Mutual Security
assistance and PL 480 assistance were greatly reduced over the past
year. The DLF had extended about $50 million in development credits
last year. This year, however, the DLF has under consideration only
three projects totalling about $35 million. One of these projects, the plas-
tics factory, presents something of a problem. A small part of the process
is available only in the UK but US financing of this portion of the project
is precluded by the Buy American policy.¹

There has been no change in the situation regarding the Export-Im-
port Bank, the Ambassador said. Although the State Department has re-
portedly said that it saw no reason why the Yugoslav Government
could not submit applications to the Bank, the Bank has been unwilling
to consider any application from Yugoslavia.

The third source of possible investment financing is the IBRD. Yu-
goslavia has made serious efforts to meet the Bank’s conditions, the Ambas-
daughter pointed out. It had settled its pre-war debts with all countries
except for a very small debt with Belgium which will be settled shortly.
The Bank has now agreed to send a mission to Yugoslavia in April. Mr.
Black, however, has raised two problems. For one thing he continues to
insist that Yugoslavia settle also its pre-World War I debt. This debt was
incurred by the Austro-Hungarian Empire prior to the existence of the
Yugoslav State and represents a rather complicated problem. Yugoslav-
ia recognizes its obligation in this connection, and it is willing to deal
with the problem in due course. The Ambassador hoped this matter
would not be an obstacle to Bank financing. Mr. Black had also raised a
problem with regard to the Bank financing state-owned enterprises. The
Ambassador expressed the hope that the Bank would show some flexi-
bility in this regard.

These are Yugoslavia’s main sources of financing, the Ambassador
said, and he asked for our understanding and support of Yugoslavia’s
position in these matters.

The Under Secretary replied that we had tried to be helpful in these
matters but so far had only had partial success. He recalled his conversa-
tion with a Yugoslav official (Nenad Popovic) in Paris last December²
and had expressed his willingness to talk to Mr. Black with regard to the

¹ Reference is to Title II of the Appropriations Act of 1933 (P.L. 428), enacted March 3,
1933. For text of this act, see 47 Stat. 1489.
² During Dillon’s trip to London, Paris, and Bonn December 7–14. No documenta-
tion on Dillon’s discussions with Popovic has been found.
Bank sending a mission to Yugoslavia. He was pleased that the Bank had now agreed to send a mission.

As regards the Export-Import Bank, the Under Secretary pointed out that he had had some talks with Eximb officials and, although this was hard to understand, the Export-Import Bank is an independent agency.

The Ambassador asked whether Eximb was concerned about the political risk of dealing with Yugoslavia. Mr. Dillon said he was sure this wasn’t the case. He frankly did not understand their attitude, but he would talk to Mr. Waugh again about the matter.

As regards the DLF, the Under Secretary pointed out that this represented a different problem. There was, of course, no connection between PL 480 and the DLF. The fact that PL 480 assistance was diminishing did not mean that the DLF could or would make up the difference. The DLF did not establish aid levels. Rather it determined how it should distribute its resources among eligible countries by priority of projects and of countries. This did not mean that the DLF did not continue to have an active interest in Yugoslavia.

The Ambassador interjected that he did not wish to be misunderstood. His Government had developed a very fine relationship with the DLF and he was sure the people there were understanding and sympathetic to Yugoslavia’s problems. Progress was slow, however, because of their heavy workload.

Mr. Dillon said that he would look into the problem. With regard to the IBRD, he thought that the problem of financing state-owned enterprises could be overcome by having them finance hydroelectric power projects. Mr. Black’s objections, he thought, would not extend to state-owned public utilities.

The Ambassador next raised the second matter he wished to discuss, the decision of his Government to simplify its foreign exchange system. This, he said, had been a goal of his Government for many years but it had now become imperative since Yugoslavia wished to develop as a part of the world economy. He pointed to Yugoslavia’s recent association with the GATT, its association with the OEEC and its interest in association with the successor organization to the OEEC as evidence of its desire to be integrated into the world economy.

The decision has now been made to introduce a customs tariff and to eliminate multiple exchange rates during the period of the next five year plan. It is felt, however, that the task could be accomplished in a

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3 Yugoslavia’s application for association with GATT was formally accepted during the October 26–November 20, 1959, GATT meeting in Tokyo.
4 Yugoslavia received observer status with the OEEC in 1956.
much shorter time with help from abroad. Therefore the IMF has been approached on the problem. Mr. Jacobsen had expressed his pleasure over the idea and indicated that the Fund would like to help. He had agreed, therefore, to send a mission to Yugoslavia in May. The Ambassador stated that he hoped the US would also become interested in the idea and would extend its support. Even if the Fund found the plan worthy of support its resources might not be sufficient, and help would have to be sought from other countries.

Mr. Dillon stated that we looked upon this development very favorably and we wished to support it in every way we can. The final decision, of course, will depend on the report of the IMF mission. He cautioned, however, that we might have some problem in extending material support since we have no agency or source of funds to supplement the resources of the IMF. While we have in the past joined with the IMF in similar plans for Spain, Turkey and Argentina, what we did was to indicate the assistance we planned to extend over some period of time. In fact we did not do more than we would have done in any event but by indicating in advance our intentions, we gave a psychological boost to the efforts of the IMF. The only case where additional aid was provided was in Spain and this was done through the medium of the OEEC. Mr. Dillon suggested that it might be useful for the Ambassador to talk to Mr. Waugh about this development. He thought Mr. Waugh would be interested in it and it might provide some stimulus for action by the Export-Import Bank.

As a final matter, the Ambassador reminded Mr. Dillon of the wish of the Yugoslav Government to have Mr. Dillon visit Yugoslavia. The Under Secretary indicated that he planned to attend the Ministerial Meeting of ECOSOC in Geneva in July.5 Following the meeting he planned to go to Vienna for a day or two and he could then go to Yugoslavia for three, four or five days. While he did not know the precise dates, he thought he might be in Yugoslavia between the 17th and 21st of July.

The Ambassador expressed his pleasure at this news and stated that he would inform his Government immediately.

The Under Secretary said that he was looking forward to the visit and unless something unforeseen arises he expected to make the visit.

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5 The U.N. Economic and Social Council was scheduled to meet July 5–August 3.
154. Memorandum of Conversation


SUBJECT
Call by Yugoslav Ambassador Prior to His Return to Belgrade on Consultation

PARTICIPANTS
The Secretary  
Mr. Marko Nikezic, Yugoslav Ambassador  
Mr. James S. Sutterlin, EE

The Yugoslav Ambassador, Mr. Nikezic, called, at his request, on the Secretary on April 11, 1960 prior to returning to Yugoslavia for consultation. At the opening of the conversation he said that he thought greatest emphasis had been placed in Yugoslavia recently on the economic development of the country and he wished to express his Government’s satisfaction at the continuing US interest in the Yugoslav economy. He noted that in past years the provision of commodities under PL 480 had been the primary method of US assistance. Now, he said, the need for this type of assistance has almost disappeared which is evidence that the purposes of this program in Yugoslavia have been largely fulfilled. The Ambassador referred to Yugoslavia’s hopes of participating in the forthcoming exploratory OEEC meeting in Paris and said that Yugoslavia must develop as a part of the world market and therefore attributes great importance to the patterns that will be worked out for trade through regional organizations. Noting that Yugoslavia has now had observer status for five years with the OEEC, he said that his Government would also like to have a similar status with CEMA, the Soviet economic coordination body, but its applications have thus far been rejected. Ambassador Nikezic said that significant economic progress had been made in Yugoslavia in recent years which he thought was due in large measure to the liberalization which had been increasingly introduced in the economic system. He emphasized that continuing US economic support will be essential, however, not only for economic reasons but in order to strengthen Yugoslavia’s political position. There is no question of the Yugoslav Government’s intention to continue its present independent policy, he said, but in order to do this it must keep ahead of its Soviet bloc neighbors in economic progress.

The Secretary, turning the conversation to current international prospects, said that his attitude toward the forthcoming summit talks

Source: Department of State, Secretary’s Memoranda of Conversation: Lot 64 D 199.  
Official Use Only. Drafted by Sutterlin, approved in S on April 13, and initialed by Herter.  
1 Scheduled for May 21–25, the meeting was to discuss reorganization of the OEEC.  
2 The four-power summit was to begin in Paris on May 16.
has been somewhat pessimistic because in his view it is better not to build up overly optimistic expectations. The problems which we face, he noted, are very difficult. He then stated that we are concerned at the attitude which the Soviet Union has been taking toward West Germany of late, adding that we have noted that the Yugoslav Government has also been very critical of the Federal Republic. The Secretary emphasized that all of West Germany’s armed forces at the present time are under NATO command and the arms of these forces are controlled by the WEU. It is our feeling, the Secretary said, that the Federal Republic today is dedicated to democratic principles. A long enduring division of Germany could, he continued, provide a possibility for the rise of a new nationalistic movement in Germany and it is, therefore, highly important, in our opinion, to find a solution which would overcome this division. Ambassador Nikezic replied that what worries Yugoslavia is not West Germany’s present military potential but rather the spirit which underlies the social development of the highly dynamic German people. Such events as Adenauer’s Rome statement concerning “Germany’s mission,” for example, and the possibility of German military bases in Spain, give the Yugoslav Government cause for concern, he said, although he conceded that the Spanish bases question is largely one of logistics. The Ambassador commented that it is possible, due to the rise of the US and the Soviet Union as the dominant powers, that Germany will not in the future play a decisive role in threats to world peace. The outstanding question of the German border, however, and the division of Germany are dangerous elements, and in the Yugoslav view the seeds that were planted in Germany 25 years ago still remain. Yugoslavia, he stated, as a country which for centuries fought for its unification, well understands the desire of the German people to be united; but such reunification, in his view, depends on the larger issue between the West and the East and until such settlement occurs the Soviet Union is not likely to give up the part of Germany “it has”.

Ambassador Nikezic then asked the Secretary how he viewed the prospects for progress in the settlement of international issues at the Summit Meeting. The Secretary replied that Khrushchev has been talk-

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3 In a January 22 talk with Pope John XXIII during his January 21–24 visit to Italy, Adenauer stated that the Germans had the duty of guarding the West from the East.

4 On February 23, The Times of London reported that the Federal Republic of Germany and Spain had negotiated an agreement for the establishment of military supply bases in Spain. The German Government denied that it was establishing its own bases and insisted that it was utilizing training facilities in Spain as part of its NATO defense commitment.

5 Reference is to the Polish border with Germany. Large segments of pre-war Germany were incorporated into Poland in 1945. These incorporations had not been recognized by the Western powers.
ing a great deal lately about signing a separate peace treaty with East Germany. The significance of such action would obviously be its threat to the status quo in Berlin. If Khrushchev is serious in some of the threatening statements he has made on this subject in Indonesia, for example, then a very dangerous situation could develop, the Secretary said. Moreover, the attitude shown by Khrushchev on the Berlin question could have a very adverse effect on the achievement of future agreements on disarmament and the cessation of nuclear testing. How can the West enter into binding agreements with the Soviet Union on disarmament if the Soviet Union is not willing to adhere to agreements reached earlier on a subject such as Berlin, the Secretary asked. Ambassador Nikezic said that he understood this point, adding that it was clear that all problems discussed at the summit must be viewed as part of a package and not as separate items on an agenda which can be isolated from one another.

The Secretary remarked that he is hopeful that progress can be made in coming weeks on an agreement concerning nuclear testing. The Soviet representative in Geneva has stated frankly, he said, that there are two decisions pending which are of a political nature and on which he must have decisions from Moscow: (1) the number of inspections and (2) the length of the moratorium. The Secretary commented that it is possible that these questions may come up for settlement at the Summit. He noted that we are sending to Geneva a program for coordinated research on the detection problem on which we are prepared to spend a great deal of money since it is a problem for which we are deeply interested in finding a solution. We want a complete cessation of testing, he emphasized, but with inspection. Ambassador Nikezic commented that since Soviet installations are more secret than those of the West the Soviets presumably fear they will lose more by inspection than will the West. The Secretary agreed but said that further knowledge in this field is being acquired every day and that secrecy is already a wasting asset. The Soviet approach to disarmament is different from our own, he continued, and difficult for us to understand. The Soviet Union, he explained, wants binding agreements leading to total disarmament without any concern for the realistic steps which must be undertaken in order to reach such disarmament without prejudicing the security of individual states. If disarmament were achieved without some force majeure under international control then mere numbers could overwhelming other

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6 In a statement at Paris on April 2, Khrushchev reiterated that signature of a Soviet-East German treaty would void Western rights in Berlin.
7 Khrushchev visited Indonesia February 18–29.
8 At the Ten-Nation Disarmament Conference in Geneva, which met March 15–June 27.
nations. We want to be sure, the Secretary underscored, that such a situation will not develop since it could jeopardize the independence of small nations and for that matter might pose a problem for the Soviet Union in view of the size of the Chinese population, for example. Ambassador Nikezic said that he was convinced that the Russians are now rich enough so that they do not wish to have a war.

The Secretary closed the conversation by wishing the Ambassador good luck on his trip to Belgrade.

155. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, May 7, 1960, 9 a.m.

989. Yugoslav officials commenting on one-sided nature foreign policy portion Tito’s recent speech at Socialist Alliance Congress (Emtel 924)\(^1\) have attempted defend implicitly acknowledged lack of balance with explanation Khrushchev today urgently needs all support possible in view what they perceive to be dangerous differences between USSR and Red China on questions coexistence and détente in international relations. According Yugoslavs this support desirable even though it brings them no immediate returns in terms for example greater Soviet acceptance Yugoslav brand Socialism.

Counselor on China desk in Yugoslav Foreign Secretariat said today that recent publication in Peiping theoretical journal Red Flag several articles ostensibly discussing Leninism were most significant, revealing high level Chinese Communist attitude toward détente sharply different from that of Khrushchev. Some Soviet officials still holding influential positions within Kremlin as well as some satellite

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\(^1\) Telegram 924, April 20, reported that Tito’s April 18 speech praised Khrushchev’s visit to the United States and other Soviet diplomatic initiatives for promoting “peace” and the “relaxation of tensions” and accused “militaristic advocates” of cold war in the Western nations of continuing to resist Soviet peace initiatives, stirring up conflict in the third world, and resisting decolonization. (Ibid., 768.003/4-2060) In telegram 721, April 23, the Department of State instructed Rankin to protest to Yugoslav authorities the “continuing Yugoslav tendency to follow biased line” on foreign policy issues. (Ibid., 611.68/4-2160)
leaders are sympathetic with Chinese views he said and distrustful prospects success current Khrushchev path. This thought presumably prompted remark earlier this week by another senior Yugoslav official who in discussion Tito speech with Embassy Officers finally remarked “which do you prefer, Molotov or Khrushchev?” China desk officer however deprecated idea of Soviet internal weaknesses claiming Khrushchev has introduced many measures in recent years assuring him widespread support within USSR. Difficulty he said is external rather than internal. Chinese Communists today militant aggressive and inspired (notwithstanding various admitted shortcomings and difficulties) with overall success their approach. Danger therefore lies more in possibility that if Khrushchev not able demonstrate success his foreign policies his authority will be weakened. Chinese less concerned over dangers war in view especially their huge population. They might therefore feel free embark on adventures which could be disastrous for world peace.

Views expressed by Chinese desk officer generally reflected in other private comment Yugoslav officials recent weeks. While such comment could be considered more apologia for one-sidedness Tito remarks at Socialist Alliance Congress they have virtue of consistency with previous Yugoslav interpretation Red China-Khrushchev relations and may thus reflect sincere conviction (augmented by Red Flag articles) that support for Khrushchev offers best hope for control as they see it of Chinese threat to world peace.

Rankin

156. Telegram From the Embassy in Yugoslavia to the Department of State

Belgrade, May 30, 1960, 4 p.m.

1076. From Rankin.1 Department’s 721 to Belgrade and 5032 to Paris.2 I saw Tito for just over an hour this morning and began by following statement:

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Source: Department of State, Central Files, 611.68/5-3060. Confidential. Repeated to Moscow.

1 Ambassador Karl Rankin left Yugoslavia and was en route to Washington for consultations.

2 See footnote 1, Document 155. In telegram 5032, May 25, the Department of State provided Rankin with instructions for his meeting with Tito. (Department of State, Central Files, 611.33/5-2560)
1. We appreciate obvious sincerity of President Tito’s May 17 statement\(^3\) on universal desire for peace. US recognizes and shares that desire.

2. It is well established technique of Moscow and Peking regimes to label as aggression any effort by US or other independent country to protect itself against Sino-Soviet imperialist expansion. This is continuing challenge we must meet. Record of US is ample evidence we have no aggressive intent toward other nations. Nor are there groups or individuals of any significance in our government, or outside among American public, who favor aggression or increasing tensions. Notwithstanding various statements appearing in press, there is essential unity among American public on this point.

3. Khruschev’s actions in Paris and subsequently have not and will not affect basic US foreign policy objectives. These are (1) security for ourselves and for other nations desiring independence and freedom from foreign intervention, and (2) establishment of just and lasting basis for peace.

4. Our objectives demand that US continue to deal positively with Soviet Government. We have no desire to see cold war renewed.

5. We wish to cooperate with all countries seeking peace with security. Like Yugoslavia, we believe UN has role of unique importance in reducing world tensions. We hope Yugoslavia will use its influence objectively to help UN in this task.

6. Unfortunately, failure of Paris conference prevented progress on two problems of vital importance to peace: Disarmament and Germany. Secretary Herter recently discussed these questions in some detail with Ambassador Nikezic,\(^4\) but following points might be noted:

A. Disarmament. US sincerely seeks safeguarded disarmament. We shall continue our efforts at Geneva to reach meaningful agreements on nuclear tests and general disarmament. Our concern is to avoid undermining security of independent nations through unrealistic agreements with insufficient safeguards. Such safeguards, applying equally to US and Soviet Union, would remove any basis for complaints that they were intended for espionage. We are prepared discuss details of phased disarmament program with adequate inspection and control, which should not be too difficult. Anything approaching complete disarmament, however, would require prior creation of international police force. Otherwise smaller nations would be at mercy of nearby great powers.

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\(^3\) Following the acrimonious breakup of the Paris summit meeting (May 16), Tito issued a statement that condemned U.S. handling of the U-2 incident but also stressed that the incident should not provide a pretext for breaking up the summit meeting. Tito called on the nonaligned nations to take the lead in improving international relations through the mechanisms of the United Nations.

\(^4\) See Document 154.
B. Germany. US continues toavor reunification of Germany, with adequate provision for the security of all nations concerned, but we would not seek reunification by force or threats of force. We remain ready to discuss Berlin with Soviets in interest of clarifying question and reducing friction, but we shall not accept the compromise of West Berlin's freedom and viability by Soviet intimidation. (end of statement)

I then remarked that President's more recent speech at Subotica May 28 was being interpreted in some circles as indicating distinct shift in Yugoslavia's foreign policy in favor of east ("you know also who is chiefly to blame for this—case of unfortunate plane—-in difficult situation when any thoughtless gesture might cause catastrophe—-here is plane which might be carrying atomic bombs"). Tito replied there was no change in Yugoslav policy. He was simply proposing toast (by intimidation extemporaneously) and his remarks would be clarified.

President said he must tell me quite frankly he thought our plane had done great disservice to all nations. However he repeated his opinion expressed May 17 that case should not have prevented Summit conference. He continued consider Khrushchev our best hope. By urging Summit meetings and visiting US he had demonstrated desire for peace and relaxation and had raised his prestige accordingly. He was under great pressure from other elements in Soviet Union, also from China. Khrushchev's statements in Berlin and subsequently show he still desires rapprochement. We must make allowance for his outburst, table-pounding et cetera, as evidence of pressures on him.

Tito said it was being noted Yugoslavia replied rather mildly to public criticism from Soviets and sometimes not at all. He had been attacked for his May 17 speech and probably Moscow would criticize his May 28 remarks. Even when Khrushchev himself attacked Yugoslavia, Tito was willing to regard matter leniently in general interest.

Reverting to plane incident I observed we had simply been unlucky. Such flights had been made from time to time for several years. Soviets knew about them but said nothing, perhaps because they had no means of bringing them down. It seemed quite likely in present case plane came down to low altitude due mechanical trouble rather than as result of Soviet missile. In any case, flight was undertaken due weather favorable for reconnaissance without specific authorization from Washington. I assumed Soviets had not suspended their intelligence opera-

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5 In this speech Tito announced that he would seek to unify the smaller nations in an effort to utilize the United Nations to ensure continued world peace and denounced the United States for the failure of the Paris summit.

6 Reference is to the U-2 reconnaissance aircraft that was shot down over the Soviet Union on May 1.
tions for several weeks prior Summit conference, but they had been luckier than we. He nodded agreement.

Tito then turned to relations between US and Yugoslavia. He brought up various economic matters which will be covered in airmailed memo of conversation, and observed our relations in general remained good. I agreed but noted continuing problem a little like that existing between Yugoslavia and Soviet Union. Executive branch of US Government did not engage in public criticism of Yugoslavia, but latter felt free to criticize US. We did not object to criticism and stated we understood Yugoslav motivation. But rather difficult to explain to public and Congress how much greater utterance shown by Yugoslavia toward Soviets, as compared with US, squared with policy of non-commitment.

President replied it was not his policy to speak out on matters which did not directly concern Yugoslavia unless they were of genuine international concern. Sometimes Yugoslavia was forced to speak on latter, as for example about Algeria, despite displeasure of France.

Responding to my question about what should be done next, Tito thought we had all learned lessons from Paris failure. He believed there had not been sufficient preparation and that perhaps meeting should have been held on lower level. He agreed with my observation that Summit conferences should be held chiefly to ratify agreements already reached in detail, besides creating better atmospheres.

In conclusion Tito reiterated Yugoslav policy of independence had not changed, adding that his public opinion would not permit such a change. I said this was exactly what I told our conference in Paris last week.

Tito wished me bon voyage and asked that his greetings be conveyed to President Eisenhower. He was sure that throughout remainder of his term Eisenhower would continue do all he could to contribute to peace. He thought that the general situation should not be regarded pessimistically.

O'Shaughnessy

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7 Document 157.
8 Yugoslavia supported the Algerian Provisional Revolutionary Government, which was waging a guerrilla war for the independence of Algeria.
9 Reference is to the Eastern European Chiefs of Mission meeting on May 26.
157. Memorandum of Conversation


SUBJECT
Abortive Summit Conference and Economic Matters

PARTICIPANTS
President Josip Broz Tito
Ambassador K.L. Rankin
Secretary General Leo Mates (Interpreter)

I called on President Tito at ten o’clock this morning and spent nearly an hour and a quarter with him. Aside from his usual chain-smoking of cigarettes and normal slightly fidgety manner, he looked well and seemed if anything more friendly than on the previous occasions I had talked with him. Much of the time he was almost affable. He evidently understood nearly everything I said in English, and often answered without waiting for Mates to interpret. However, he spoke invariably in Serbo-Croat.

After a few pleasantries, during which I told President Tito that I was flying to Washington the day after tomorrow, I read a statement on United States policy. It followed rather closely the outline of the Department’s telegram 5032 to Paris, dated May 25 and was repeated in Belgrade’s 1076 of May 30. I read it slowly and Tito seemed to understand everything. Meanwhile, however, Mates made rapid notes. All of the more significant political points raised in the conversation were covered in Belgrade’s telegram mentioned above. A further comment of some interest, however, resulted from my remark that the decision to cancel out the Summit Conference evidently had been reached in Moscow before Khrushchev’s departure. Tito agreed that this probably was true, and said that it demonstrated the pressures under which he had operated.

After most of our political conversation had been completed, Tito asked what I thought about Yugoslav economic progress, particularly in agriculture. I replied that evidently great progress had been made, and that I looked for further accomplishments. The President said that the results were due to better farming methods, particularly to better seed.

Source: Department of State, Central Files, 611.68/6-160. Confidential. Drafted by Rankin and sent to the Department of State as an enclosure to despatch 656 from Belgrade, June 1.

1 See footnote 2, Document 156.
2 Document 156.
Weather conditions had not been favorable so far this year, and if the same methods had been employed, the virtual crop failure of 1952 would have been repeated. As it is, the state farms and the peasants in cooperatives anticipate an average wheat yield of 30 quintals per hectare (over 40 bushels per acre, presumably applying to the Vojvodina where he was traveling last week), while other peasants may not get over 10 quintals.

I remarked that with better farming methods Yugoslavia should be able to keep ahead of other countries in Eastern Europe (Tito interrupted, with a laugh, “We want to”) on condition that the genuine, voluntary cooperation of the peasantry is obtained. I thought their success to date was due in no small means to progress along this line. Tito agreed. I added that compulsion would not work, and repeated the need for seeking genuine voluntary cooperation.

Since we had touched upon one aspect of the “private sector” in Yugoslavia’s economy, I ventured to mention another way in which progress could be made. I referred to the small shopkeeper or artisan, employing perhaps two or three people, and performing various services on too small a scale to interest the various social enterprises. I thought these people too should be encouraged. Tito laughed and said that they were making plenty of money already. I observed that everyone said exactly that, which probably explained why these small businesses were special targets for the tax collector. If they could only be encouraged instead of penalized, the economy would benefit greatly.

I remarked that I had been in the Soviet Union when Lenin inaugurated the New Economic Policy. I had seen some of the effects in Tiflis. The shops had been empty; business was stagnant. Yet simply by giving people some freedom the situation improved remarkably.

Tito then referred to the current visit of a mission from the International Monetary Fund. Its report would be submitted next week, and he had great hopes of being able to liberalize and strengthen Yugoslavia’s economy by various measures to be agreed on with the Fund.

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3 A joint IMF–IBRD mission to study Yugoslavia’s economic situation, led by Pieter Lief tinck, Netherlands’ Executive Director of the Fund, visited Yugoslavia during May 1960.
158. Operations Coordinating Board Report


OPERATIONS PLAN FOR YUGOSLAVIA

I. Objectives and General Policy Directives

1. Short-Term Objectives
   a. An independent Yugoslavia outside the Soviet bloc, capable of withstanding Soviet political and economic pressures, not actively engaged in furthering Soviet Communist imperialism, and with a potential for weakening the monolithic front and internal cohesiveness of the Soviet bloc.

   b. Without jeopardizing the above objectives, reorientation of the Tito regime in the direction of political and economic liberalization and closer Yugoslav ties with the West in general and Western Europe in particular.

2. Long-Term Objective. Eventual fulfillment of the right of the Yugoslav people to live under a government of their own choosing, which maintains peaceful and stable relations with neighboring states, and participates fully in the Free World community.

U.S. Interest in Yugoslavia

3. The Tito-Kremlin break of 1948 and Yugoslavia's position outside the Soviet bloc since then have served U.S. interests through the continued denial to the USSR of important strategic positions and other assets, and through the effects, both within and outside the Soviet bloc, of Yugoslav political independence and economic progress in the face of Soviet pressure.

4. U.S. policy in support of the maintenance of Yugoslavia's independence constitutes an integral part of the broader U.S. policy which has as its objective the eventual attainment of complete national independence by all of the Soviet-dominated nations in Eastern Europe. The example of Yugoslavia, which has successfully maintained its independence of Soviet domination, stands as a constant reminder to the

Source: Department of State, OCB Files: Lot 62 D 430, Yugoslavia. Secret. A title page, a memorandum noting OCB concurrence, a statement of purpose and use, and three appendices (a list of selected U.S. arrangements with Yugoslavia, a financial and military aid analysis, and a list of P.L. 480 agreements and ICA-administered programs) are not printed. The report was approved by the OCB at its July 6 meeting. Minutes of the OCB meeting are ibid., Preliminary Notes.
dominated regimes and serves as a pressure point both on the leaders of these regimes and on the leadership of the USSR. It is in the U.S. interest to take advantage of Yugoslavia’s potential influence in Eastern Europe and in uncommitted and newly-emerging countries, insofar as such influence tends to advance U.S. objectives.

**U.S. Economic Assistance to Yugoslavia**

5. The United States will continue to furnish economic and technical assistance to Yugoslavia in the minimum amounts needed for either or both of the following primary purposes:

   a. To encourage Yugoslavia to pursue policies which will contribute to the attainment of U.S. objectives.
   b. To assist Yugoslavia in avoiding undue economic dependence on the Soviet bloc.

To the extent possible without prejudicing the above primary purposes, such assistance should also attempt to influence Yugoslavia to give greater play to free economic forces within Yugoslavia.

**U.S. Attitude Toward Tito Regime**

6. The United States should avoid actions which, on the one hand, could be interpreted as unreserved endorsement of the Tito regime, or which, on the other hand, would encourage attempts to overthrow that regime by violence.

7. We should expect that, as a neutral nation, and as a Communist country, Yugoslavia occasionally may undertake actions and make statements which the United States cannot approve. We should not, however, be unduly irritated at this, or allow it to influence our judgment, as long as such actions do not undermine Yugoslav freedom of action vis-à-vis the bloc or otherwise jeopardize major U.S. foreign policy objectives. Moreover, we should evaluate Yugoslav statements within the context of Yugoslavia’s ideological and geographic positions.

**II. Operational Guidance**

**Support for Yugoslav Independence**

8. Yugoslavia continues to demonstrate the will to maintain its independence outside the Soviet bloc, despite Soviet pressures and blandishments. Its economy is developing favorably and its internal political situation appears stable. Nonetheless, as a small, still underdeveloped country, bordered on three sides by Soviet bloc countries, and viewed as a threat to bloc unity by Sino-Soviet leaders, it will continue to need economic and political support from the United States to help assure its independence.
Guidance

9. Make entirely clear, on a continuing basis, unflagging U.S. interest in Yugoslav independence through such means as high level visits in both directions, the provision of economic assistance, and effective U.S. diplomatic representation in Belgrade.

10. Continue to encourage Yugoslav trade with the United States and with other countries of the Free World and to provide such economic assistance as may be necessary in order to enable Yugoslavia to avoid undue economic dependence on the Soviet bloc.

11. Continue to permit the Yugoslavs to purchase U.S. military equipment and supplies as may be needed to avoid dependence on the Soviet bloc, as long as satisfactory U.S.-Yugoslav political relations continue to exist, also to train limited numbers of Yugoslav military personnel on grant or reimbursable basis.

12. [11 lines of source text and footnote (3 lines of source text) not declassified]

Economic Assistance

13. As noted in paragraph 8, while Yugoslavia’s economic position has improved, it continues to need U.S. economic assistance and cooperation. Primarily this assistance is intended to strengthen the basis of Yugoslavia’s independence, but it is also intended to contribute to a level of economic progress in Yugoslavia sufficient to illustrate in pragmatic terms to the other countries of Eastern Europe the benefits of Yugoslavia’s independent policy and associations with the West.

Guidance

14. Consider Yugoslavia’s requests for assistance from U.S. lending institutions in accordance with relevant U.S. loan policy and the criteria set forth in paragraph 5 of this paper, giving special emphasis to those projects which will serve to tie Yugoslavia more closely to the economy of the Western Community.

15. Continue Title I PL 480 sales to Yugoslavia.

16. Continue the Title III PL 480 program in support of the American voluntary organizations in Yugoslavia.

17. Continue a Technical Cooperation Program for Yugoslavia since this not only will ultimately strengthen the Yugoslav economy but also is a most effective means of exposing influential Yugoslavs to Western equipment and technology and to the liberalizing influence of close working contact with Western colleagues.

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1 For text of the economic cooperation agreement signed in Belgrade January 8, 1952, see 3 UST 1.
Utilization of Yugoslavia's Potential as a Divisive Influence on Soviet-Bloc Solidarity and as a Counter to Bloc Influence in Uncommitted Countries

18. The Soviet Union and Communist China have renewed their efforts to nullify the influence of Yugoslav "revisionism" within the bloc since the turbulent events in Poland and Hungary in 1956 and they have undoubtedly met with considerable success. They also have attempted to counter the influence of Yugoslavia in the uncommitted and newly emerging nations. It is in the U.S. interest that Yugoslavia continue to exert a divisive ideological influence on the bloc and afford the uncommitted countries beneficial advice on the dangers of becoming overly reliant on the Soviet Union. At the same time, Yugoslavia's influence in the uncommitted areas poses certain problems for the United States since Yugoslavia represents a Communist economic and political system, albeit a revisionist one.

Guidance

19. Take advantage of appropriate opportunities discreetly to direct attention to Yugoslavia's successful struggle for independence and to the beneficial results which have accrued from it.

20. Take advantage of appropriate opportunities to encourage the Government of Yugoslavia to influence adjoining Soviet-dominated countries to develop a more independent position vis-à-vis the Soviet Union.

21. Facilitate Yugoslavia's efforts to remain in the public eye by such steps as high level visits to and from Yugoslavia and occasional support for Yugoslav candidates for prestige offices in international organizations.

22. Avoid a hostile or negative attitude toward Yugoslav representatives in Latin America and the uncommitted and newly emerging nations of Asia and Africa. Conduct ourselves toward such representatives in such a manner as to distinguish clearly between them and Soviet bloc representatives and to indicate that Yugoslavia, as an independent country, enjoys the respect and support of the United States. The United States should be prepared to accept a measure of Yugoslav economic and political influence in these areas, while remaining alert for any indication that Yugoslavia is actively encouraging the adoption of internal policies of a Communist orientation, particularly in Latin America, or systematically undermining U.S. interests in these areas.

Encouragement of Liberalization in Yugoslavia

23. Since Yugoslavia left the Soviet bloc many of the harsher aspects of Communist control have disappeared and a decentralized economic system has been established in which there are elements of a competitive-type market economy. Yugoslavia remains a one-party Communist
state, however, and continuous efforts are made to orient the people towards a Marxist ideology. Thus the United States is faced with the problem of seeking simultaneously to establish and maintain a smooth and friendly working relationship with the present Yugoslav Government and to bring about a gradual liberalization in the Yugoslav economic and political systems.

**Guidance**

24. Continue to seek procedures, consistent with U.S. internal security for expediting the issuance of non-immigrant visas to Yugoslav nationals, including representatives of Yugoslav industrial and trading enterprises, whose travel to the United States will serve United States objectives in Yugoslavia.

25. Encourage visits to Yugoslavia by prominent Americans including both high-ranking Government officials and individuals well known in the fields of art, science, professions, etc.

26. Encourage the development of closer cultural ties between Yugoslavia and the nations of the Free World, particularly those of Western Europe.

27. Continue current exchange programs with Yugoslavia and endeavor to negotiate a Fulbright Agreement with Yugoslavia and appropriate arrangements with the Yugoslav Government to facilitate the use of local currencies for PL 402 purposes to the extent such use is authorized by the Congress.

28. Cooperate with private organizations in the development and implementation of non-governmental exchange programs between the United States and Yugoslavia such as that now being conducted by the Ford Foundation.

29. Utilize cultural presentations under the President’s Special International Program, and otherwise, to depict American cultural achievements and thus bring to the Yugoslav people a clearer concept of the range of cultural development in the non-Communist West. In this connection, be prepared to facilitate the presentation in the United States of Yugoslav cultural attractions.

30. As noted in paragraph 17, continue a Technical Cooperation Program in Yugoslavia.

31. Continue an active but circumspect USIS program in Yugoslavia. Information activities should emphasize the peaceful and con-

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3 The International Cultural Exchange and Trade Fair Participation Act of 1956, approved August 1, 1956 (P.L. 84–860). For text, see 70 Stat. 777. The OCB was responsible for the administration of the program.
structive nature of U.S. foreign policies and show them to be compatible with the best interests of the people of Yugoslavia; should acquaint the Yugoslavs with the facts of U.S. economic assistance in terms of stronger Yugoslav economy, and, to the extent possible and without antagonizing the regime, they should encourage liberalization of Yugoslav internal political and economic arrangements, and encourage the people in their pro-Western orientation.

32. Continue VOA shortwave broadcasts daily in Serbo-Croatian and Slovenian.


34. As appropriate, encourage the Free Europe Committee to continue to resist any attempts by Eastern European emigré leaders to associate Yugoslav exile groups with the Committee or the Assembly of Captive European Nations.

Closer Integration of Yugoslavia in the Western Economic and Political Community

35. The strengthening of Yugoslavia’s ties with the West is an effective means of influencing its future orientation and of lessening its susceptibility to Soviet pressure.

Guidance

36. Encourage the continuing expansion of U.S.-Yugoslav commercial relations, including support of U.S. business in promotion of U.S. exports to Yugoslavia.

37. Encourage the further development of tourism between the United States and Yugoslavia and between Western European countries and Yugoslavia.

38. Continue U.S. participation in Yugoslav trade fairs and provide U.S. trade missions as appropriate.

39. Encourage expanded Yugoslav participation in the work of the GATT and such international economic organizations as OEEC, or its successor organization, and the introduction of such economic reforms in Yugoslavia as may be necessary to facilitate such participation. The question of supporting full Yugoslav participation in the GATT or

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4 For text of the Information Media Guarantee Agreement, see 3 UST 5052.
5 Created in 1949, this organization engaged in studies of conditions in the Communist-ruled nations of Eastern Europe.
6 Established in September 1954, this body, made up of exile leaders and organizations from Albania, Estonia, Czechoslovakia, Lithuania, Poland, Bulgaria, Hungary, Latvia, and Romania, met annually to discuss the problems of their nations and encourage anti-Communist activities.
OEEC should be decided in the light of the circumstances existing at the
time Yugoslavia applies for such status.

40. Consider Yugoslavia on the same basis as free European nations in
evaluating Yugoslav requests for U.S. export licenses so long as
Yugoslavia's export control practices are generally consistent with the
objectives of the multilateral trade controls imposed against the Soviet
c bloc.

41. Utilize the opportunities afforded by the recent understanding
reached between Yugoslavia and the United States for cooperation in
the peaceful uses of atomic energy to further contacts between Yugo-
slav and American scientists, to bring young Yugoslav scientists to the
U.S. for training in non-sensitive fields and to export to Yugoslavia rea-
sonable quantities of materials and equipment needed for basic research
and instruction in the atomic energy field, for source material explora-
tion and for medical and normal industrial and agricultural purposes.

42. While recognizing that the Balkan Pact is dormant, encourage
the continuing existence of the Tripartite Balkan Secretariat and the de-
velopment of close Yugoslav relations with Greece and Turkey in eco-
nomic, cultural and related fields.

43. Encourage the resolution of differences between Yugoslavia
and Italy and between Yugoslavia and Austria with a view to promoting
mutual understanding and improved relations in political, economic
and related fields of activity.

44. In general, encourage Western European countries to adopt
policies parallel to those of the United States with respect to Yugoslavia.

Utilization of U.S.-Owned Local Currency in Yugoslavia

45. The major portion of U.S.-owned dinar holdings is earmarked
for economic development and social projects in Yugoslavia and its
utilization no longer poses a serious problem. There are, however, large
balances of dinars reserved for U.S. uses for which normal U.S. require-
ments are relatively limited. Moreover, the understanding reached with
the Yugoslavs that we will take their balance of payments position into
account in using these dinars is a major obstacle to the purchase of goods
for export.

Guidance

46. A continued effort should be made to find effective uses for the
dinar balances reserved for U.S. uses keeping in mind, however, current

7 Five officials representing the Yugoslav Federal Commission for Nuclear Energy
visited the United States February 28-­April 1 for a tour of U.S. nuclear installations and
discussions with U.S. officials regarding bilateral cooperation in peaceful employment of
nuclear energy. Documentation on the Yugoslav nuclear program is in Department of
State, Central File 611.6845.
policy of the Bureau of the Budget, which subjects all "U.S.-use" local currencies to the appropriation process.

U.S. Personnel

47. The acceptance of the presence of official U.S. personnel on foreign soil directly affects our capability to achieve our national security objectives. To this end, programs should be developed and improved to encourage and strengthen the natural inclination of the individual American to be a good representative of his country and to promote conduct and attitudes conducive to good will and mutual understanding.

Guidance

48. The OCB has developed a comprehensive document which serves as a guidance for senior U.S. representatives overseas:

"Report on U.S. Personnel Overseas (July 1959), including a Statement of National Policy and a Presidential Letter as well as a reprint of the Conclusions and Recommendations of a 1958 report."

49. Hold the number of U.S. official personnel in Yugoslavia to a strict minimum consistent with sound implementation of essential programs.

Note: The following NIE's are applicable to Yugoslavia:

NIE 12–59 Political Stability in the European Satellites—11 August 1959 (See para. 26).
NIE 12.6–58 The Outlook in Poland—16 September 1958 (See paragraphs 51 and 52).
Annex A

INTERNATIONAL EDUCATIONAL EXCHANGE SERVICE (STATE)

50. A State Department exchange program has been operating in Yugoslavia since fiscal year 1958. This program is being gradually enlarged. In fiscal year 1959 it consisted of 22 grants under PL 402 at a cost of $60,077. All of these grants were awarded to Yugoslavs. The program for the current fiscal year (1960) consists of 29 leader and specialist grants under PL 402 at a cost of $118 thousand. 28 of these are for foreign grantees and one is for an American. The fiscal year 1961 budget as presented to Congress provides for 92 grants of which 51 are under PL 584 at a cost of $175 thousand in foreign currency and $68,900 in PL 402 dollar support. The implementation of this portion of the program will depend to a large extent upon the successful completion of negotiations currently being conducted for a Fulbright Agreement between Yugoslavia and the United States. There are 41 additional grants foreseen for fiscal year 1961 under PL 402 at a cost of $77,600 in appropriated dollar funds and $50 thousand in PL 480 foreign currency. These are for leaders and specialists under the regular exchange program as it now exists. Also included in the request to Congress are $75,000 in PL 480 foreign currency for the possible establishment of academic chairs and workshops in Yugoslavia, expendable over three years, and $9,800 for farm youth and teenager projects. The total program cost for FY 1961 is estimated at $495,700.

51. In the field of private exchanges the Ford Foundation is quite active and for two years now has been bringing over influential political and academic figures for visits and study in the United States. A number of students and scholars continue to come under private sponsorship and the Eisenhower Fellowship\(^\text{1}\) has brought at least two Yugoslavs to this country. It is anticipated that further Yugoslav nuclear scientists will come to the United States for study under programs of the International Atomic Energy Agency in Vienna, and it is possible that the Institute of International Education and the Rockefeller Foundation will eventually initiate programs for bringing Yugoslav students and scholars to this country.

USIA PROGRAM FOR YUGOSLAVIA

52. Headquarters are in Belgrade. A branch office is maintained in Zagreb and a reading room in Novi Sad.

\(^{1}\)The Eisenhower Exchange Fellowships were established in October 1953 to facilitate extended visits to the United States and abroad for journalists, educators, government officials, businessmen, and other professional people.
53. Personnel complement consists of 15 Americans and 92 Yugoslavs. Twelve Americans and 67 local employees are stationed in Belgrade, three Americans and 23 local employees are in Zagreb, and two local employees in Novi Sad. Total cost of the FY 1959 program in Yugoslavia was $569,763; FY 1960 estimated at $594,007; FY 1961 estimated at $661,343.

54. Information centers (libraries) are maintained in Belgrade, Zagreb, and Novi Sad, with an average monthly attendance of about 10,000, 12,000 and 4,000 respectively. Other cultural activities include lectures, book translations and presentations, English teaching, and promotion of attractions sponsored by the President’s Fund.

55. USIA administers the exchange of persons program in Yugoslavia.

56. Publications produced in Yugoslavia include Pregled (Review), a monthly magazine of 15,000 circulation, daily bulletins in Serbian and Croatian with circulations of 4,000 and 6,000 respectively, pamphlets and other periodical publications.

57. Documentary films are shown through Yugoslav organizations to a large audience.

58. VOA broadcasts emanating from the United States carry a daily program for a total of one hour and forty-five minutes in Serbo-Croatian and 15 minutes in Slovenian.

59. The Information Media Guarantee Program administered by USIA amounted to $850,000 for FY 1959 and FY 1960. It is expected to continue at about the same level in FY 1961.

60. Under PL 480 (i) $190,000 has been allocated through FY 1960 for book translations, with $400,000 requested for FY 1961. Fifteen titles have been approved and accepted by the Yugoslavs, in a total program calling for the publication of some 64 textbooks and medical books in translation.

61. Under the President’s Special International Program, U.S. participation in the Zagreb International Trade Fair is planned for the fall of 1960, and the Eastman String Quartet made an extensive tour of the country in March 1960.

ICA PROGRAMS IN YUGOSLAVIA

Objectives

62. The ICA program in Yugoslavia is designed to assist that country

a. to maintain and strengthen its national independence;
b. to liberalize its political and economic character.

The current and prospective programs of Technical Cooperation and Special Assistance address the various aspects of the problems in-
herent in seeking to achieve these objectives. Through Technical Cooperation, ICA is undertaking to create links with Yugoslavia which will permit expanded contact between Yugoslavs and the West. Through this program ICA also is helping Yugoslavia to increase the technical competence of training and research institutions whereby the country's productive capacity—industrial and agricultural—will be increased. The Special Assistance program is in direct support of this program for it finances the acquisition of equipment, tools, machinery, etc. to be used for demonstration and training.

Current Programs

63. U.S. assistance during the past ten years has made it possible for Yugoslavia to avoid undue economic dependence on the Soviet bloc and has strengthened the foundation upon which Yugoslav independence rests. This assistance has made it easier for Yugoslavia to undertake a number of liberalizing measures during this period; agricultural collectivization as such has been abandoned and forced deliveries terminated; decentralization has in fact been carried out in all sectors of the economy, allowing freer play of market forces. Industrial production and exports have increased steadily. In the agricultural sector, the Yugoslavs have achieved virtual self-sufficiency in wheat. As a result of the hybrid corn program initiated in 1953, the yield per acre has increased by 30 percent on an average, with increases on many individual farms of 100 percent and over. With U.S. support, the Yugoslavs have established English Language Training Centers in all of the six republics; today, English is fast becoming the second language of Yugoslavia. Through the Technical Inquiry Service and distribution of industrial information and translations, individual industrial plant managers and returned participants throughout the country are provided with a wide range of up-to-date technical information.

64. The Technical Cooperation program (in FY 1960, $1.9 million) is the center of the U.S. activities designed to create closer ties between Yugoslavia and the West. It operates both through the medium of visits by Yugoslavs to the U.S. and Western Europe, and by the employment of American technicians in Yugoslavia. Supporting TC activities include a technical inquiry service, the establishment of English language training centers, developing relationships with American universities, trade associations, and scientific institutions, and furnishing equipment and supplies for key demonstrations. The hostility and suspicion with which the Technical Cooperation program was first regarded have largely been overcome, and, at the request of the Yugoslav Government, the program will be considerably expanded in FY 1961.

65. The Technical Cooperation program has been supported by Special Assistance grants ($2.3 million in FY 1960) for the purchase of
demonstration equipment and supplies. However, with the increase in loans from the DLF, which are now the major source of U.S. economic assistance to Yugoslavia, non-project Special Assistance is being phased down in FY 1960 to one loan ($3 million for coking coal).

66. Under the economic development program utilizing local currency generated by the Section 402 and PL 480 programs, grant funds have been programmed for the construction of grain storage, vocational education, and public health facilities; loan funds are being utilized for projects in industry, mining, transportation, power, and agriculture, including a large irrigation project. Section 402 sales ended in FY 1959. PL 480 Title I sales have now been sharply reduced following the achievement by the Yugoslavs of virtual self-sufficiency in wheat production.

Future Programs

67. For FY 1961, tentative plans are that Project Aid will consist of a $3 million Technical Cooperation program with a $1 million Special Assistance grant for the purchase of demonstration equipment and supplies.

DEFENSE PROGRAM IN YUGOSLAVIA

68. Since the termination of grant military assistance to Yugoslavia in December 1957, the U.S. has provided military equipment to Yugoslavia on a Mutual Security Military Sales basis, thereby contributing to the independence and pro-Western reorientation which are the objectives of U.S. policy for Yugoslavia.

69. Inasmuch as Yugoslavia neither receives grant military assistance nor is joined with the U.S. in collective security arrangements, Yugoslavia’s forces are not considered as "Mutual Security Forces."

70. Grant military assistance to Yugoslavia commenced in FY 1952. From that time until the program’s termination in 1957, the U.S. provided Yugoslavia with over 200 jet aircraft, 8 small naval vessels, as well as tanks, vehicles, and miscellaneous Army equipment. Since the termination of aid, Yugoslavia has purchased small quantities of equipment under the Mutual Security Military Sales (MSMS) provisions of the Mutual Security Act.\(^\text{12}\)

71. It is expected that the U.S. will continue to sell limited quantities of military assistance under the MSMS program. Such assistance will probably consist primarily of spare parts, ammunition, and training.

\(^{12}\text{For text of the Mutual Security Act of 1954, P.L. 665, enacted August 26, 1954, see 68 Stat. 832}\)
Annex B

SINO-SOVIET BLOC ACTIVITY IN YUGOSLAVIA

(Prepared by CIA without inter-agency coordination as an informal document for use by the OCB Working Group and as background for the information of the OCB and the NSC.)

June 27, 1960.

72. General. Belgrade's state relations with the USSR and Eastern Europe showed a limited improvement during most of the recent period manifested by the January visit and high level conversations held in Moscow by top trade unionist Vukmanovic-Tempo. The authoritative Soviet party organ Kommunist, however, breaking precedent with Soviet efforts in the past year to win Yugoslav support through an outward appearance of amicability, bitterly attacked Yugoslavia for its failure to follow Moscow's line on the U-2 plane incident and the summit. It accused Tito of "directly or indirectly" supporting the United States on numerous international issues and warned Belgrade that the bloc would continue to attack "revisionism." The Soviet attack followed closely that of Communist China which, together with Albania, had been leading the bloc attack on Yugoslavia. Party relations with the bloc remain deadlocked, and diplomatic relations with Peiping and Tirana are virtually suspended. The bloc once again rejected a Yugoslav request for observer status on the Council for Mutual Economic Relations (CEMA).

73. Economic. Yugoslavia's trade with the bloc leveled off in 1959, amounting to about $320,000,000 or 25 percent of Yugoslavia's total imports and 31 percent of exports. Yugoslavia remains sensitive to the possibility of economic blockade and the government limits bloc trade to roughly 25 percent of total trade—a percentage that would obviate the necessity of a substantial shift of exports to Western markets. Intermittent negotiations with Moscow concerning Soviet credits suspended in 1958 have been fruitless.

74. Yugoslav Reaction. Yugoslavia is continuing to develop and exploit its international role "between the blocs" and supports a policy of "détente" and "coexistence." Tito has criticized the foreign policies of the West while stepping up political and economic relations with the "uncommitted" nations. Continued sniping from Albania probably has

13Vukmanovic-Tempo, the head of the Yugoslav Trade Unions Front, visited Moscow January 6-26 for what was officially reported as a vacation. During his stay he met with Soviet Premier Khrushchev on January 26.
been a large factor in Yugoslav skepticism of bloc efforts to create a "Balkan zone of peace." Belgrade continues its steady criticism of Communist China, which it regards as a Stalinist throwback bent on upsetting international détente. More recently resumption of criticism from other bloc nations has resulted in a renewal of Yugoslav critiques of certain bloc domestic and foreign policies.

75. The Outlook. Yugoslav insistence on independence in internal affairs and Belgrade's active attempts to play a significant international role by closing ranks with Asian and African neutrals will continue to strain Yugoslav-bloc relations. Any stable truce between Moscow and Belgrade is unlikely, but neither side wishes state relations to be completely ruptured.

159. Memorandum of Conversation


SUBJECT
Discussion with Yugoslav Ambassador Concerning US-Yugoslav Relations and International Situation

PARTICIPANTS
The Secretary
Mirko Nikezic, Yugoslav Ambassador
James S. Sutterlin, EE

Yugoslav Ambassador Nikezic called today at his request on the Secretary. He referred first to the fact that he had just returned from two months' consultation in Belgrade and stated that, from his talks there with President Tito, Foreign Secretary Popovic and all other officials of the Yugoslav Government interested in foreign relations, it is clear that on the Yugoslav side conditions exist for the maintenance and further development of good relations between Yugoslavia and the US. He said that Yugoslavia's interest in good relations with the US has increased rather than the contrary. From the conversations which Ambassador

Source: Department of State, Central Files, 611.68/6-2460. Confidential. Drafted by Sutterlin and approved in S on June 29.
Rankin recently had with Tito and Foreign Secretary Popovic,¹ he continued, the Yugoslav Government judges that on the US side conditions are also favorable for the further development of friendly relations. Ambassador Nikezic said that Yugoslavia has tended to give publicity to its opposition to any change in the status quo in Eastern Europe. It attributes equal importance, however, to the continued political “presence” of the US in Eastern Europe and would be greatly opposed to any lessening of this. The economic support which the US extends to Yugoslavia, he continued, is of great importance in itself and is developing in a highly satisfactory manner; but the Yugoslav Government considers it important from the political point of view as well, the Ambassador emphasized, as a manifestation of this US political “presence.”

Ambassador Nikezic next referred to Yugoslavia’s plans for a change in its economic relationship with other countries through a reform in its exchange system. He said that he had reviewed this in detail with Under Secretary Dillon² and that the Yugoslav Government is looking forward to Mr. Dillon’s forthcoming visit to Yugoslavia³ so that it may have an opportunity to discuss the plan further with him and persuade him of its merits. Mr. Dillon will see President Tito, Vice President Todorovic and Foreign Secretary Popovic, Ambassador Nikezic said, and while primary attention will doubtless be paid to economic subjects, he thought that US-Yugoslav relations and the international political situation might also be raised with Mr. Dillon if he is willing to discuss them.

Turning to the current international situation, Ambassador Nikezic referred to the two, seemingly opposing, trends in Soviet policy which have emerged: on the one hand, an evident desire to increase tensions, and, on the other, a reaffirmation of the policy of coexistence and peace. Which, Ambassador Nikezic asked, does the Secretary consider to be the dominant trend? The Secretary replied that it is difficult to say but that in his opinion it is probably the latter, adding that the Soviets seem to wish to keep channels of communications open. As to Khrushchev’s performance in Paris,⁴ the Secretary said that he thought there was a real element of personal feeling toward the President involved as well as a conviction on Khrushchev’s part that he could not make any progress in

¹ For reports of Rankin’s meeting with Tito, see Documents 156 and 157. Rankin met with Popovic on May 17 for discussions on Popovic’s visit to the Middle East and the failure of the Paris summit. The memorandum of this conversation is in Department of State, Central Files, 611.68/5–1860.
² See Document 153.
³ Dillon was scheduled to visit Yugoslavia July 17–20 as part of a five-nation goodwill trip.
⁴ Reference is to Khrushchev’s public demands that Eisenhower apologize for the U-2 incident and especially to Khrushchev’s conduct during his May 17 press conference.
Paris toward his goals in Germany. Ambassador Nikezic then queried the Secretary as to whether the US is prepared to give Khrushchev time to settle his domestic problems and his differences with the Chinese Communists and again negotiate with him at a later date when he is ready. The Secretary indicated that our policy remains the same and that we shall continue to try to find means of reducing tensions and establishing peace. In Geneva we still are endeavoring to make progress on disarmament and the cessation of nuclear testing. Unfortunately we have always run up against the same obstacle, that is, the question of inspection. In this connection the Secretary commented that he thought the U-2 incident was a real shock to the Soviets since he felt that until the plane was downed and the films developed the Soviets had no idea of how extensive our knowledge was of developments inside their country. Ambassador Nikezic noted that Soviet weakness in this connection should logically be attributed in the Soviet Union to the "generals" rather than to Khrushchev's policy of coexistence.

Ambassador Nikezic next asked the Secretary whether in view of the failure of Summit diplomacy he expected the UN to become more active in the settlement of international problems. The Secretary answered that it may well, but that it is in many ways a difficult forum for serious negotiations. As an example he pointed to the fact that the Committee on Disarmament is composed of 82 members, many of whom have little or no knowledge of the technicalities of the subject. On the other hand, he said, there are many nations interested in the maintenance of the balance of power and who thus would approach the subject in a realistic manner. Elements of mistrust are bound to continue, the Secretary noted, as long as closed societies exist. Only through a system of inspection in which all nations may have confidence can this mistrust be overcome in our present-day world. The US for its part, the Secretary said, has nothing to hide, and indeed almost anything in the country can be photographed from commercial planes.

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5 The Ten-Nation Disarmament Conference at Geneva had deadlocked after Western rejection of a Soviet plan for disarmament on June 16. On June 17 Frederick Eaton, the chief U.S. representative, returned to Washington for consultations.
160. Editorial Note

On July 6 the Operations Coordinating Board conducted its semi-
annual appraisal of NSC 5805/1 (see Documents 120 and 122). The
Board concurred in the recommendation that no policy review by the
NSC was necessary at this time and that there were no developments of
such significance as to warrant sending a report to the NSC. In line with
a Presidential directive to the OCB to bring all NSC policy papers into “a
current condition for the next Administration” (NSC Action No. 2215–c,
approved by the President on April 9; Department of State, S/S–NSC
(Miscellaneous) Files: Lot 66 D 95; Records of Action by the National Se-
curity Council), the OCB requested that the Department of State prepare
a draft revision of NSC 5805/1. (Memorandum by Bromley Smith, July
13; ibid., OCB Files: Lot 62 D 430, Yugoslavia)

161. Memorandum of Conversation Between George F. Kennan
and President Tito

Belgrade, July 8, 1960.

I called on President Tito this morning and spent nearly an hour
with him. The visit took place at his initiative; I had made no suggestion
or request of this nature. I was simply informed by the Institute for In-
teernational Politics and Economics that the visit would be part of my
program. Before going to the President’s office I was twice advised by
Mr. Stanovnik, the Director of the Institute, that this was not to be
merely a protocol visit but that the President would wish to discuss mat-
ters of substance. In reply I pointed out that I was only a private individ-
ual and could speak for no one but myself but would be happy to
discuss any matters he cared to discuss.

The only other person present at the interview was the President’s
political secretary, Leo Mates. The discussion began, at the President’s
request in English, and I think he wanted it informally documented that
this was the language of discussion; however, we soon moved over to
Russian and finished the discussion in that language.

Source: Department of State, Central Files, 768.11/7–1160. Confidential. Drafted by
Kennan and sent as an enclosure to a July 11 letter from O’Shaughnessy to Kohler. Kennan,
a former U.S. Ambassador to the Soviet Union and fellow at the Institute for Advanced
Studies at Princeton, was in Yugoslavia for 3 days of meetings at the Institute of Interna-
tional Politics and Economics at Belgrade. In January 1961 President Kennedy appointed
him Ambassador to Yugoslavia.
After the usual initial pleasantries the President opened the political part of the discussion by stating it as his opinion that the United States Government would, after the forthcoming change of administration, have to have new concepts and approaches in the field of foreign policy and that these would have to be united in some sort of positive program. Otherwise, he thought, there would be continued difficulties and possibilities of a preclusive reduction of American prestige and the effectiveness of American diplomacy.

He then brought up the subject of Cuba and said that they could not help but feel sympathy for a small and economically weak country faced with the proximity of a large and powerful one. On the other hand, he could not entirely approve of the abrupt manner in which the Cubans had done what they had done.\(^1\) He did feel that this was an important test of American policy and that much would depend on the nature of the American reaction.

I replied by saying that I thought it was the universal impression among Americans, and one which I personally shared, that we had been extremely patient with the Cubans; that there had initially been no prejudice against the Castro regime in the United States—on the contrary—he had come to the United States and been received in a friendly manner; and that I did not know what we could have done other than what we had done to show our patience and good will. Specifically, I thought the action taken with regard to the sugar quota\(^2\) was the least we could do to protect our interest and represented an action which the Cubans had to expect.

The President indicated agreement with this view, and I gathered that he did not feel that our action with regard to the quota had been in any way unreasonable. His somewhat torn feelings about this question seemed to center more round the general tone of American reaction than round the specific measures we had taken, and I gathered that while he had no strong objection to voice to anything we had done thus far, he would be extremely sensitive to anything that looked like efforts on our part to apply military pressure and aggressive economic sanctions against the Cubans. For this reason I told him it was, in my opinion, most unlikely that we would undertake any military intervention in Cuba unless the Cubans behaved so provocatively as to arouse real violent reactions in American public opinion and Congressional circles. Barring anything of this sort, it was my impression that we would probably move through the Organization of American States, and that much would depend on the reactions on the Latin American neighbors.

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\(^1\) Apparently a reference to the expropriation by the Cuban Government of property owned by U.S. oil companies on June 29 and July 1.

\(^2\) The United States cut off Cuban sugar imports on July 6.
I pointed out that the Venezuelans and other Latin American countries might also be the sufferers from the actions taken by the Cubans against American interests. I also pointed out to him that this was not just a question of what had been done but also of how it had been done; and stated that if the Cuban Government had decided that it did not want private foreign investment in Cuba and had approached us in a conciliatory and respectful way with a program designed to liquidate such investment in a manner least injurious to American interests, I felt sure that we would have been willing to collaborate even though we could not approve of the spirit of the measures; but when such actions were taken provocatively, in a manner deliberately offensive to our country and detrimental to our prestige it was impossible for us to show patience indefinitely.

He asked me who I thought was influencing the Cubans and whether it was not the Chinese more than the Russians. I said I was not informed about this and could give him no answer; that the actions taken by the Cubans seemed to me to correspond more closely to Chinese concepts of the cold war than to the Russian ones; but I had no precise information of any sort on this point. I said that obviously the Russians were deeply interested in this situation and it was my own view that the main source of their interest might be to build up their position in Cuba for its nuisance value with a view to bringing pressure on us at a later date to reduce the dimensions of our military commitment in Iran and perhaps in other Soviet-border countries in return for a comparable reduction of their activities in Cuba. On this the President did not comment.

Turning to the European theatre, the President observed that no one wanted the unification of Germany and that the present situation would have to endure for a long time. He saw no reason why this would not occur without producing great tension. I pointed to the Berlin situation as the main element of danger in the continuation of the present situation. He stated that Khrushchev was interested in Berlin only as a lever for getting concessions out of the West: if such concessions could not be achieved Khrushchev had no interest in going ahead with the peace treaty project.

He asked about the Soviet proposal for a free city of Berlin.\(^3\) I replied that it had been my personal view that while the proposal as made by the Russians was quite unacceptable I thought it might have received more serious study and consideration than was the case in the Western countries; however, it had to be recognized that the West German

\(^3\) Prior to the summit conference of May 1960, the Soviet Government reiterated its view that the creation of a free city was the only alternative to a separate peace agreement between the Soviet Union and the German Democratic Republic.
Government was dead against any such idea and that for the Western allies to give consideration to the proposal would have meant to override the feelings of Bonn, and also of the West Berlin leaders on a matter of most intimate importance to them. He said that he himself thought that this idea, to have any reality, would have to be applied to the entire City of Berlin and not just to the Western sectors. I said I heartily agreed and also that any conceivable change in the status of Berlin would, in my opinion, have to include guaranteed facilities of communication with the outside world to be extended as a right—and not as at present—as a privilege. He voiced no objection to this, and I gathered he felt it was reasonable.

I took occasion to say to him that whatever happened in this problem it was out of the question that we could abandon the Western sectors of Berlin to any form of East German control; that this was not a partisan issue in America, both parties were agreed on it; that the West Berliners had shown courage, firmness and loyalty to us, and we would remain loyal to them.

I asked him whether he thought it would be useful if Bonn were to attempt to develop its economic and cultural relations with various Eastern European countries on a bilateral basis. He said he definitely thought it would: that this might even help with time to render the deeper political problems somewhat easier of solution. He laughed about the German break with Yugoslavia, saying that it had hardly affected the course of events at all.⁴

The talk turned to the Far East. I said I thought there was a certain evolution of opinion in our country on relations with China and that it was even possible that consideration might be given, after the change in administration, to modifications of our position with regard to official bilateral relations with China and to the participation of China in the UN. However, I wished to emphasize that people at home were under no great illusions about the possibility for agreement with the Chinese in any substantive issues. With the Russians it was one thing: we had our differences but there was no real underlying hatred; in many ways we respected and admired each other, and there was a bond of mutual appreciation among our peoples. With the Chinese we had the feeling that we were up against real emotional prejudice of the most violent sort, and that while we might have made our mistakes in policy toward China at one time or another that these mistakes did not justify or explain the violence of the Chinese Communist hatred directed toward us. Things would have to change therefore on the Chinese Communist side.

⁴ The Federal Republic of Germany broke relations with Yugoslavia on October 19, 1957, after the Yugoslav Government announced its diplomatic recognition of the German Democratic Republic.
as well as on ours before any progress could be made, and it would be a long process.

The President listened attentively to all this but made no comment other than the Yugoslavs themselves knew something about the violence of the Chinese Communist emotional prejudice, and that if we were denounced in the way we were, they, too, were also denounced for allegedly being our agents.

I asked him whether he was satisfied with the state of American-Yugoslav relations and he said everything was proceeding very smoothly here.

The only specific criticism he had to make of American policy was that we often defeated ourselves in our foreign aid programs by first making generous undertakings and then destroying the psychological effect of them by petty restrictions and demands.

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162. Editorial Note

Under Secretary of State Douglas Dillon visited Yugoslavia July 17–20, during a five-nation good will tour. On July 18 at 9:30 a.m., Dillon met with Yugoslav Vice President Todorovic (see Document 163). After lunch with Todorovic, Dillon visited the Pancevo fertilizer plant. That evening he attended a dinner at the U.S. Embassy. At 11 a.m. on July 19, Dillon met with President Tito at the latter’s villa on the island of Vanga (see Documents 164–168). After his discussions with Tito, Dillon returned to the Yugoslav mainland and drove to Zagreb. Dillon flew from Zagreb to Paris the morning of July 20. Documentation on Dillon’s visit to Yugoslavia, including memoranda of conversation, summary telegrams, and briefing papers, is in Department of State, Conference Files: Lot 64 D 559, CF 1724.
163. Memorandum of Conversation

MC/12 Belgrade, July 18, 1960, 9:30 a.m.

UNDER SECRETARY'S VISIT TO YUGOSLAVIA
July 17–20, 1960

PARTICIPANTS

United States
The Under Secretary
Elim O'Shaughnessy, Chargé d'Affaires, a.i., Embassy Belgrade
Leonard Weiss, Economic Counselor, Embassy Belgrade
John Leddy, Special Assistant to Mr. Dillon
William D. Broderick, Second Secretary, Embassy Belgrade

Yugoslavia
Vice President Todorovic
Vladimir Popovic, Member Federal Executive Council
Bogdan Crnobrnja, Assistant Secretary of State in Secretariat for Foreign Affairs
Janko Smole, Governor Yugoslav National Bank
Franc Primozic, Director IV Political Division

SUBJECT
United States-Yugoslav Economic Relations

Mr. Todorovic opened the talks with the remark that the timing of Mr. Dillon’s visit was fortunate for a review of mutual economic relations and for seeking new forms and areas of cooperation. He stated that he wished to discuss three related topics: Yugoslavia’s internal economic development; her international economic relations; and mutual economic relations between the United States and Yugoslavia.

Mr. Todorovic began with a survey of Yugoslavia’s internal economic policy. He stated that preparations for a new Five Year Plan were nearly completed and that the plan would soon be presented to Parliament. In its basic character, the plan continues the present policies of (a) a further rapid development of the economy, (b) a further raising of the living standard and (c) a further development of the social system in the direction of more decentralized and more democratic self-government. Stress will be placed on self-management by individuals and groups. Progress in this direction has been considerable but it is not good enough as yet.

National income is expected to increase 11% annually in the period 1961–1965. Although this is a high rate, Mr. Todorovic pointed out that

Source: Department of State, Conference Files: Lot 64 D 559, CF 1724. Confidential. Drafted by Broderick and approved by Leddy on July 26.
the annual increase in national income during the last four years was 12%. Exports will increase 12% annually while imports will go up 9% annually. Thus the present $700 million level of exports of goods and services will increase to $1.3 billion by 1965 and imports will rise from $800 million to $1.3 billion. Thus it is anticipated that by the end of the Five Year Plan the balance of payments deficit will be more or less eliminated.

Mr. Todorovic pointed out that the above program was possible, as the record to date has proven; it was also essential that it be carried out. In order to strengthen Yugoslavia’s independence, to raise the low level of the economy and to introduce more freedom into the social system such a program of development must be undertaken.

The present per capita national income according to Mr. Todorovic is $350. This compares with a pre-war level of $170 and the 1947 level, also of $170. While this is indicative of the progress that has been made, it is in contrast to the situation in most European countries whose per capita national income is more than $1,000. Mr. Todorovic pointed out that whereas the present level of national income is equal to that of the U.S. at the end of the nineteenth century, in 1954 it was only equal to that of the U.S. at the end of the eighteenth century. He stated that by 1965 it was expected that per capita national income would reach $570, which would bring it close to Italy’s present level.

The new Five Year Plan provides for approximately 25% of national income to go to investment, with an annual increase of personal consumption at the rate of about 9% annually, and investment in social projects (housing, schools, hospitals, etc.) at the rate of about 13% annually.

These rates, which are high, were set with two basic factors in mind. First, living standards are still low and rapid growth of living standards has taken place only in the last two years. Secondly, the Yugoslav economic system is characterized by the fact that a rapid rate of increase is linked with a rapid growth of living standards.

Mr. Todorovic stated that Yugoslavia was counting on foreign assistance for the implementation of its Five Year Plan in the gross amount of $1 billion. He pointed out however that net foreign assistance would be significantly lower because of heavy repayments schedule for credits contracted. He stated that most currently available credits in Europe are short term.

Mr. Todorovic stated that Yugoslavia has taken great strides forward in decentralizing its economy but it is not yet satisfied with the extent of decentralization. Further movement in this direction can only come by strengthening the material basis of the economy. He pointed out that 40% of total investment is still channeled through Federal sources and that enterprises have at their free disposal only 1/6th of
their total profits after taxes. It is desirable to leave them with a larger share of profits and the Yugoslav Government will move in this direction. However, success will depend on available resources. He stated that a law is now under preparation which will increase the role of local communities in the control and operation of schools (to be managed by parent-teachers associations), hospitals and similar institutions. It is also planned to permit enterprises an increasing share in the management of funds through the creation of a system of commercial banks through which the distribution of social capital can be made.

Overall direction, however, of economic development must be based on the social plans, both to insure development along sound lines and to prevent inflation.

Mr. Todorovic next turned to the question of the foreign exchange reform. He stated that the contradiction between the movement towards economic freedom on one hand and the bureaucratic elements in the foreign trade and exchange system on the other had long been obvious to them. Efforts to date to carry out a reform have been inhibited by the lack of foreign exchange and the need for heavy expenditures on national defense and on economic development, among other things. Today however the prospects of carrying through such a reform have greatly improved. The reform itself, concerning whose details the American Embassy has been informed, marks, according to Mr. Todorovic, a qualitative change towards freer relations in this area. Although it will cause problems at first, it will in the long run provide a new impulse to the economy.

Mr. Todorovic stated that in undertaking such a reform Yugoslavia did not want to affect adversely the growth in living standards nor to slow down the rate of social economic development. He said that his country was counting on foreign aid in order to implement the reform. According to Yugoslav calculations $340 million in medium and short-term credits would be needed to carry it out. Yugoslavia looks both to Western Europe and the United States in addition to the IMF to provide such assistance. It anticipates that much of the assistance as well as help in obtaining assistance from Western Europe must come from the United States. Mr. Todorovic stated that it was hoped that the reform could take effect on January 1, 1961. An IMF commission is to visit Yugoslavia in August and detailed estimates are now being prepared for this group.

Turning next to bilateral relations Mr. Todorovic said that mutual relations in the last ten years had been positive, successful and mutually useful and had helped Yugoslavia to weather many extraordinary difficulties resulting from the international situation and from such internal problems as drought and post-war reconstruction. The forms of aid have of course changed in accordance with changing needs. He pro-
posed to review our relations today with a view to the promotion of stable, long-range economic relations. In addition to present aid new and more lasting types of assistance would be desirable. Mr. Todorovic stated that quantitatively the general level of economic aid from the U.S. was stagnating at the same time that over-all Yugoslav exports and imports were increasing. While earlier forms of assistance had now ceased (i.e. PL 480 wheat) there were possibilities to replace them with new forms of long-term aid. He stated that Yugoslavia was not satisfied with its present level of exports to the United States and that measures, including a visit by a group of prominent businessmen to the United States, were now being undertaken to increase mutual trade. He stated that Yugoslavia found it easier to get credits and technical cooperation from private firms and banks in Europe than from those in America. He said he found it somewhat surprising that U.S. banks and businessmen were more conservative in this regard than those of Western Europe and he thought it would be useful if the U.S. Government, possibly through the EXIM Bank, could give some encouragement in this direction. He pointed out that they had done no business with the EXIM Bank or with the IBRD for ten years. Now that the problem of pre-war debts had been settled 1 his government anticipated assistance from the IBRD in the near future, and he requested U.S. support for such help.

Mr. Todorovic concluded by stating that it was hoped Yugoslav exports to the United States could be tripled by 1965.

Mr. Dillon, after thanking Mr. Todorovic for his exposition, stated that the United States has wanted to assist Yugoslav development as much as possible within the limits of its available means. He pointed out that development was perhaps the most important problem of our time, and that we considered Yugoslavia to fall within the category of those countries which have a real capacity for development. He stated that the United States wishes to continue its very satisfactory cooperation with Yugoslavia and that as the situation changes within Yugoslavia the form of such cooperation will naturally change. He stated that we agree with the goal of moving towards a more natural and long-term relationship based on trade. The decline in the total value of U.S. assistance both now and in the near future does not indicate our lessened interest in Yugoslavia but rather a change for the better in the Yugoslav economic situation. For example, the large shipments of wheat we had previously made under PL 480 were now no longer necessary because of Yugo-

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1 On April 6 the Yugoslav Government announced that it was assuming responsibility for the prewar debt of the Kingdom of Yugoslavia. A temporary 5-year settlement, approved by the Foreign Bondholders Protective Council, provided for the resumption of payment on bonds at a rising yearly rate through 1964. A final settlement more favorable to the bondholders would then be negotiated.
slavia’s success in increasing its grain production. Mr. Dillon pointed out that, apart from wheat, the level of our economic assistance to Yugoslavia as a result largely of the DLF is greater than previously. He stated that we intend to continue to make loans to Yugoslavia in accordance with available funds and world-wide demand.

Mr. Dillon said he considered it useful for Yugoslavia to develop trade relations with our private companies. Insofar as the government is concerned, we favor an expansion of such trade relations. He stated that as a former businessman himself he could only speculate as to why American businessmen were so conservative vis-à-vis Yugoslavia. He suggested that once our businessmen become personally acquainted with the country and its markets this situation should improve. Many private businesses, he pointed out, like to begin operations in a new country by working out technical cooperation agreements which, if successful, are often followed by loans. Practically all private investment abroad, he pointed out, is undertaken by individual companies and not directly by banks.

Regarding Yugoslavia’s exports to the U.S. Mr. Dillon observed that as the Yugoslav economy develops, its range of export products should increase. He was sure that the U.S. Department of Commerce would be ready to help in any way possible to promote U.S.-Yugoslav trade. He also stated that on his return to Washington he would see what could be done to encourage the Export-Import Bank to cooperate in this regard. He indicated however that the EXIM Bank, although within the government, is a completely independent institution not subject to the directives of the State or Treasury Departments.

Mr. Dillon expressed pleasure that relationships had been regularized with the IBRD. He stated that Mr. Black had informed him following the visit of the IBRD mission to Yugoslavia that the Bank looks forward to renewed collaboration with Yugoslavia.

Mr. Dillon then asked certain questions in connection with the foreign exchange reform. He stated that the figure of $570 per capita national income for 1965 was most impressive and if achieved would mean that Yugoslavia should no longer be considered an underdeveloped country. It is generally calculated, he said, that when a country attains $500 per capita national income this means that rapid and easy development is possible without outside assistance of a special nature. Pointing out that the figure was given in dollars and that a country with multiple exchange rates presented special problems in this regard, he asked what was the conversion factor. Mr. Todorovic replied that this was a very complex calculation done by the Yugoslav Planning Board taking into consideration internal prices, tariffs, etc. and for this reason he described it only as approximately $570. Mr. Dillon then asked whether there were estimates of how much of the $1 billion of external
assistance needed in the Five Year Plan would come from Western Europe. Mr. Todorovic said he was unable to give a precise breakdown since much depended on the types of credits available. However, they were counting on Italy, Germany and France as well as Switzerland, Belgium and Great Britain. They also anticipated getting some credits from Japan.

Mr. Dillon then stated that our Government has felt strongly that short-term credits are not very helpful for development projects. Therefore the United States had used its influence in Western Europe to lengthen credit terms. It was found that many countries, Italy and Germany in particular, had no mechanism for making longer term loans but both are now in the process of creating such mechanisms. The Development Assistance Group created in Paris last January has as its purpose to increase the amount of long-term development funds, although it does not get into specific operations. The United States and other countries have agreed that loans for a term of five years or less cannot be classified as development assistance. We believe this will help all countries like Yugoslavia which are in need of development funds.

Mr. Dillon stated that we think the proposed exchange reform should be helpful for the economy. We are not, he said, in a position to comment on it in detail. When the report of the IMF is finished and made available to us, it will be studied and determined at that time what can be done specifically by the United States to help.

Mr. Dillon stated that in Geneva he talked with Mr. Jacobsson whose impressions of Yugoslavia had been most favorable and who felt that some arrangements of this general nature were possible.

Mr. Dillon then asked whether the funds needed for the exchange reform, which had been stated at $340 million, were included in the $1 billion of foreign assistance anticipated in the Five Year Plan. Mr. Todorovic replied that it was not. The $1 billion of which less than $500 million would be available for net investment, was in addition to the exchange reform sum. Mr. Dillon then inquired as to the reasoning for assuming that the reform would cause a decrease in exports, since in most cases a unified rate at a devalued level results in an export increase. Mr. Todorovic in reply emphasized that the reform will eventually bring about an increase of exports but that there would be a temporary drop while certain firms which have to date enjoyed very high profits and premiums for their exports are able to adjust to the new conditions of the market.

Mr. Dillon felt that the unified exchange rate in itself would be a great help to an increase in trade on a multilateral basis. As to the $340 million total it was a very large one. The first step would be to get the full agreement of IMF on details of the program and on the amount of outside funds the IMF in Yugoslavia agrees are necessary. He said he hoped
that it would be found possible to lower the total. It is difficult to find funds available for stabilization purposes only. In the help which the U.S. had given in recent years to Turkey, Spain, and Argentina it was found necessary to use all kinds of different assistance, including the DLF, PL 480 and EXIM Bank, in order to make up the overall total. Congressional funds for grant assistance had been declining in recent years. Nevertheless once we receive the IMF report we will see what can be done and talks will be held both here and with the Yugoslav Embassy in Washington at that time.

Mr. Dillon stated that we felt the Western European countries should play an important part in this effort, particularly because the immediate trade benefits would be greater for them than for us. He assured the Yugoslavs that once agreement is reached with the IMF and the Yugoslav Government, the United States Government would be glad to do everything possible to promote the cooperation of Western European countries which could assist in the reform.

Mr. Todorovic in reply stated that he had not reckoned with DLF and PL 480 as means of supporting the exchange reform because these had already been planned to be used for investment purposes, as is their function. He stated that the figure of $340 million was a realistic sum which would enable the reform to be successful without jeopardizing economic stability. Yugoslavia he said was very sensitive regarding such stability because public opinion would not easily accept measures to check the growth in living standards. The measure he said also has important international political aspects. The Yugoslav system is considered by some a bold and risky experiment and Yugoslavia would not wish to give certain outsiders a chance to comment negatively on or attack Yugoslav economic developments. Yugoslavia feels it must be cautious in implementing such a program.

Mr. Dillon agreed that the reform would be a substantial step forward if successful and that it should be done with caution. While it is impossible for us to know at this time how much of the necessary support can be mobilized, the United States will be glad to work closely with the Fund and the Yugoslav Government to see where we can help and to energize the governments of Western Europe. Regardless of how this particular program works out, the United States will continue to support Yugoslavia in the remarkable efforts it is making. Mr. Dillon concluded by stating that he was particularly impressed by the fact that Yugoslavia’s economic growth had been accompanied by improvement in the standard of human welfare and a growth in consumption. He wished Mr. Todorovic well in his efforts in the coming years.

Mr. Weiss then asked whether the $60 million decrease in exports was an absolute or relative decrease. Mr. Todorovic explained that this was not a decrease anticipated from the present year’s levels but from
what next year's exports would have been had there been no reform. Mr. Todorovic concluded by stating he was convinced the talks had been useful and that his government appreciated Mr. Dillon's appraisal of Yugoslav efforts and the role of the United States in Yugoslav developments. He stated that Yugoslavia intends to carry through an exchange reform regardless of outside aid because it is in the interest both of the government and the people of Yugoslavia. The rate at which the reform can be implemented however depends on the amount of outside assistance available.

164. Memorandum of Conversation

MC/6 Vanga, July 19, 1960, 11 a.m.

UNDER SECRETARY'S VISIT TO YUGOSLAVIA
July 17–20, 1960

PARTICIPANTS

United States
The Under Secretary
Mr. E. O'Shaughnessy, Chargé d'Affaires
Mr. Graham Martin, Special Assistant to the Under Secretary
Mr. Leonard Weiss, Counselor for Economic Affairs and Acting Director USOM

Yugoslavia
President Tito
Leo Mates, Secretary General to President Tito
Koca Popovic, Secretary of State for Foreign Affairs
Vladimir Popovic, Chairman FEC Council on Foreign Economic Relations
Bogdan Crnobrnja, Assistant Secretary of State for Economic Affairs

SUBJECT
Cuba

Prior to the meeting with President Tito, Mr. Dillon had met privately with Foreign Minister Popovic. (The discussion covered the

Source: Department of State, Conference Files: Lot 64 D 559, CF 1724. Confidential. The drafting officer is not indicated; approved by Dillon on July 21. The meeting was held in Tito's villa. See also Documents 165–168.
same points as in the Tito conversation and therefore is not separately reported.)

President Tito welcomed Mr. Dillon and, after the usual exchange of pleasantries, invited him to speak on whatever matters he wished. Mr. Dillon indicated that since our attitudes and actions relating to Cuba were apparently not well understood in Yugoslavia, it might be useful to discuss the Cuban situation putting it into its proper historical perspective. Mr. Dillon said that the Cuban problem was important to us and involved rather deep emotional reactions on the part of the American people.

Reviewing our war with Spain, regarded by our people as a war of liberation, he outlined subsequent economic measures taken to aid Cuba. He described the very profitable arrangement which had been provided in more recent times by the US to Cuba with respect to sugar. Under this arrangement we paid Cuba 2¢ a pound above the world price for sugar and thus contributed materially to Cuba’s economic well being.

Mr. Dillon recalled that when Batista overthrew the Machado regime he had at first instituted some social reforms of which we had approved. His last regime had relapsed into the same repressive measures of his predecessor and the Cuban people had wanted a change. Mr. Dillon noted that the US had stopped arms shipments to the Batista government, that Castro’s agents had operated in the US with relative freedom, that influential parts of the American press had been sympathetic to Castro, that after his overthrow of the Batista regime he had been permitted to visit the US and had received almost a hero’s welcome. In summary, Mr. Dillon pointed out, on Castro’s coming to power, the US reaction, both popular and official, was sympathetic to the social reforms expected of the new regime.

Then, Mr. Dillon noted, for reasons unclear to us, he started making antagonistic statements. He said the US would attack Cuba when we had no such idea, and indicated he would have nothing to do with the Organization of American States. He started fomenting difficulties in other countries in Latin America and developed close relations with the Soviet Union. We have reluctantly come to the opinion that he is operating as a satellite of the Soviet Union rather than being genuinely interested in social reforms.

Mr. Dillon stated that other countries in Latin America have become disturbed about Castro’s activities. The statements made by

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1 On July 22, O’Shaughnessy prepared a memorandum of Dillon’s conversation with Popovic. A copy was sent to the Under Secretary of State. A marginal note on that copy reads: “Not distributed as considered unnecessary by CDD[illen]—same topics covered in Tito conversation.” (Ibid.)
Khrushchev regarding his intention to go to Cuba and other related matters were very unpopular with other Latin American countries. The latter do not wish to have an outside country interfering in the affairs of this hemisphere, and now want a meeting of Latin American states on the Cuban problem.

Mr. Dillon stated that we have the greatest sympathy for social reform in Cuba. While we are concerned about expropriated American property and want to see this matter fairly settled, it is not our first concern. We are concerned, stated Mr. Dillon, about Cuba’s becoming a center of Soviet influence. Because of our geographic proximity and direct effect on our interests we feel very strongly about this matter. Mr. Dillon recalled to President Tito the recent statement of President Eisenhower on this point and said it would be a great mistake for anyone to underestimate the seriousness with which not only this administration but any successor administration would regard this matter. We have, however, no intention to attack Cuba as the Castro regime has asserted.

President Tito thanked Mr. Dillon for his candid and lucid exposition of the problem. He stated that the Cuban people should have the opportunity to improve their economic conditions and develop the country in the manner in which suits them best. He was glad to hear from Mr. Dillon that we were not thinking of any “dramatic” action (that is, the use of force) and said he believes that the problem could be settled peaceably through negotiation. He felt that the whole problem has become accentuated by the general deterioration in the world situation. If it were not for this fact, the Cuban affair would be a relatively minor matter. He stated that with good will the problem could be peaceably settled.

He said that he was not familiar with all the details of the internal situation in Cuba and the statements made by Cuban officials. He felt, however, that the cut in the sugar quota was a very strong measure on our part and smacks of economic pressure. He suggested that perhaps measures, such as a reduction in the price of sugar rather than a cut in the quota with its discriminatory effect, would have been better in the situation.

Mr. Dillon stated that it would have been difficult to cut the price of sugar since we pay this price to other Latin American countries besides Cuba. He noted that a reduction in the price for Cuba only was also discriminatory just as a cut in the quota applicable only to Cuba. He stated that the Cubans had charged that as a result of our buying sugar from

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2 Khrushchev’s proposed visit was announced on June 17.
4 The United States cut off Cuba’s sugar import quota on July 6.
them, they were slaves to us, were unduly dependent on the US and wished to diversify. The Cubans have not been taking very good care of their sugar fields. As a consequence while Cuba will probably have a fairly good harvest next year (down only about 10%) our experts tell us there will be a big drop in the year after next and Cuba will not be able to satisfy our requirements and, at the same time, fulfill commitments to the Russians and requirements elsewhere.

Accordingly, Mr. Dillon continued, we felt that a reduction in the quota at this time and the increase of our purchases from other Latin American countries was warranted. He noted that we would still be buying substantial quantities of sugar from Cuba, some 2.5 million tons instead of the previous 3.2 million tons, that is, about 40% of Cuba’s sugar crop as compared with the previous half. Mr. Dillon noted that we intended to buy more sugar from other Latin American countries. Mr. Dillon indicated that these countries felt that the present arrangement, which had been established some 20 years ago, was unfairly favoring purchases from Cuba and that some adjustment was in order.

Mr. Dillon stated that we do not intend to take other measures against Cuba unless she forces us to. In fact, the economic aggression has been the other way, from Cuba not from us. He also noted that, in addition to Cuban measures of expropriation, Cuba has run up an unpaid bill of some $150 million on purchases from the US.

Mr. Dillon agreed with President Tito that the Cuban people should be permitted to develop their economy as they wish. He felt that the regime had gone astray and that it was up to the people of Cuba to correct the situation. He said that we do not want Cuba to become a center of international disturbances and agreed with President Tito that the general world situation had greatly exaggerated the difficulties with Cuba.

As the President later adjourned the meeting for luncheon he thanked Mr. Dillon for the clearness and frankness of his remarks, particularly on Cuba, which gave him a better understanding of that situation.
165. Memorandum of Conversation

MC/7

Vanga, July 19, 1960, 11 a.m.

UNDER SECRETARY’S VISIT TO YUGOSLAVIA
July 17–20, 1960

[Here follows the same list of participants as Document 164.]

SUBJECT

General World Situation

Mr. Dillon then solicited President Tito’s views on the general world situation and the Russian attitude with respect to it. He started out by saying that, while we could understand though not agree with the Russian reaction to the U-2 incident, we could not understand the Russian action with respect to the latest airplane situation involving the RB-47.¹ He said that the Russians knew about past RB-47 activities. He said that the plane never had gone closer than 30 miles to the Soviet Union and that we were prepared to prove this fact in the UN. He noted that Russian planes have engaged in the same kind of activities as the RB-47. He also noted the curious fact that the Russians are not saying where they shot down the RB-47. Mr. Dillon said it was strange to us why the Russians were stirring up so much trouble on the RB-47 and asked for President Tito’s views.

The President replied that he does not have the facts and thus finds it hard to express views on the matter. In his opinion, however, it would have been wise, in view of the U-2 incident, to have avoided any activity close to Soviet territory that might cause another incident. Against the background of the U-2 incident, we should have been extra careful to prevent even the smallest possibility of causing another incident in the cold war situation that has now developed because any incident, otherwise small in itself, gets more “resounding” and exaggerated.

¹ A U.S. Air Force RB-47 reconnaissance bomber was shot down by the Soviet Union over the Barents Sea on July 1. Four American servicemen were killed and the survivors were taken into custody by the Soviets. See Part 1, Documents 157–165.
166. Memorandum of Conversation

MC/8  Vanga, July 19, 1960, 11 a.m.

UNDER SECRETARY'S VISIT TO YUGOSLAVIA
July 17–20, 1960

[Here follows the same list of participants as Document 164.]

SUBJECT

China

In connection with the general world situation, President Tito stated that there was one problem very much on the mind of his government; namely, that of China. He stated that Yugoslavia believed it would be beneficial to the world community if China were represented in the UN. If she were, he argued, China would have to defend itself both in that forum and accept responsibilities in the UN. He said that there are Chinese policies and actions of which Yugoslavia disapproved, for example, India and Nepal, but felt that these and other difficulties could be better handled if China were in the UN.

Another aspect of this matter, he said, was that though China has been excluded from the UN, it was developing rapidly economically and thus constantly growing stronger (with the implication that China was thus becoming more dangerous). He also stated that the exclusion of China from discussions and agreements on disarmament would be to the detriment of the world community. He stated that with the present attitude against China, the latter might feel pressed to take harsh actions politically and to go even beyond, thus creating even more dangerous situations from which it would be difficult to disentangle.

He emphasized that the views he had presented on the matter of China were not prompted out of concern of any direct danger by China to Yugoslavia, but rather out of Yugoslavia's general assessment of the world situation, and the interest of the world community. The President solicited Mr. Dillon's views on this question.

Mr. Dillon then reviewed the position of the US against mainland Chinese membership in the UN until they could accept the principles and obligations of the UN. He appreciated the view that if mainland China were in the UN, it might be made more responsible and deterred from aggression. But, he said, the situation in our view was more com-
plicated. A positive step was involved in bringing mainland China into the UN. In order to do this, it must be agreed that it is a peace-loving country, willing to abide by the principles and obligations of the Charter. It was difficult to support mainland China as such a country against the background of her using force in India and Tibet.¹

Furthermore, he noted, we have responsibilities to Taiwan and other countries in Asia to take into account. Asiatic countries traditionally have been fearful of China and even now are more fearful in view of the Chinese aggressive expansionist bent. They would be greatly concerned over anything on our part that could be interpreted as our being prepared to tolerate aggressive Chinese action.

As regards Formosa, the mainland Chinese want to “liberate” Formosa, but the latter do not want to be a part of the present regime in China. Eighty percent of the people of Formosa have always been indigenous to that country and do not want to come under sovereignty or control of the mainland Chinese government. He noted in this connection that Formosa has had a remarkable economic development with a 8–9% annual increase in GNP over the last ten years. Part of this growth was attributable to successful agrarian reform in Formosa.

He also noted that we have difficulties in accepting Chinese membership in the UN in view of the fact that China is still holding American prisoners, that is, now some 4–5 out of originally approximately 40.

Mr. Dillon recognized that obviously the present situation, exclusion of China, cannot continue indefinitely. He stressed, however, that we saw no way to modify the situation until the Chinese show a willingness to follow principles of law and order envisaged under the UN Charter.

He stressed that this attitude was one held by both parties in the US. In this connection, he noted, that the recent Democratic platform takes essentially the same position on China as that which he had outlined.

Mr. Dillon also noted that the emotions stirred up by China in the American public must also be taken into account. He indicated that the strong emotional feeling in the US against China after the Korean war had subsided to a considerable extent; then came the Indian and Tibet incidents and feelings in the US were stirred up again.

Mr. Dillon indicated that we understood the point of view expressed on China by President Tito, and expressed the hope that President Tito would understand ours. He asked for President Tito’s views on Chinese-Russian relations, in particular whether recent Russian reac-

¹ Reference is to the suppression of the Tibetan revolt in March 1959 by China and the Sino-Indian border disputes which had led to armed clashes in August and October 1959.
tions were stimulated by a harder Chinese attitude on international issues.

President Tito stated that he understood the emotional reactions generated by Chinese action. But, he asked, historically how long can 600 million people be excluded from the world community? Sooner or later, he stated, something must be changed.

Mr. Dillon agreed that this situation must eventually evolve. He agreed that any eventual agreement on disarmament must include China. He noted that Secretary Herter had stated this publicly and that there was no bad reaction to this statement in the US.

We believe, however, Mr. Dillon went on, that it was not desirable to complicate the disarmament negotiations by bringing China in at this time. He stated that we felt that first we should try to make progress with the Soviets; once preliminary agreement had been reached with them, then would be the time to bring in other countries, including China.

President Tito stated that we must face up to the China situation very soon. In this connection, he noted that China might soon commence atomic tests. He stated they were concerned not with disarmament but with arming. He argued that once they had made progress in their atomic tests and otherwise in increasing their power, it would be very difficult to settle the China problem and to bring China into the disarmament arrangements in the way Mr. Dillon had suggested.

In reply to Mr. Dillon's general question about the influence of Chinese attitudes on Russian policy, President Tito stated that he did not believe that there was any action of China which was capable of breaking any Russian resolve to reach agreement on international matters. Mr. Dillon suggested that perhaps the matter was the other way, that is, that the Chinese attitude might stimulate the Russians to seek agreement with the West, particularly in nuclear test negotiations. President Tito and all his advisers agreed this was possible.
167. Memorandum of Conversation

MC/9

Vanga, July 19, 1960, 11 a.m.

UNDER SECRETARY’S VISIT TO YUGOSLAVIA
July 17–20, 1960

[Here follows the same list of participants as Document 164.]

SUBJECT
Congo

President Tito stated that the China situation was not the only one where the unexpected can occur. The Congo difficulty is another such situation and affords another example of why we should be concerned at the failure of the Paris Conference. He stated that difficulties such as those now in the Congo grow in importance and momentum as a result of the cold war situation arising out of the failure of the big powers at Paris. Mr. Dillon agreed with President Tito on this point. He noted, however, that we were prepared to negotiate and it was the Russians who pulled out of the Paris Conference.

President Tito stated because of the sense of urgency Yugoslavia felt, as regards the world situation, the Yugoslavs had tried to prevent the complete breakdown of that conference and emphasized that the great powers should not stand on prestige. He said that Yugoslavia was greatly criticized by the East because of this statement. He was concerned with the continuing deteriorating developments in the international situation and the cumulative effect of these developments and felt that something must be done.

Mr. Dillon said "something" was very broad. He asked whether President Tito had specific suggestions.

President Tito replied that we should seek to activate the UN. He said that the appeal to the UN for assistance in dealing with the Congo rebellion is a good example of how the UN should be used.

Mr. Dillon said he fully agreed with President Tito. He noted that no country has supported the UN more than we. We have always felt it was the hope of humanity. While it was difficult to make the UN work at times because, for example, of the resort to the veto in the Security Council, we nonetheless felt we should use the UN to the greatest extent possible.

Source: Department of State, Conference Files: Lot 64 D 559, CF 1274. Confidential. The drafting officer is not indicated; approved by Dillon on July 21. The meeting was held in Tito’s villa. See also Documents 164–166 and 168.
He noted that the idea for the use of the UN in the Congo case originally came from our Ambassador to the Congo. In fact our Ambassador broached this line without initially telling Washington since he could reasonably feel that his proposal was in line with American policy in this regard. We were glad our Ambassador had made this proposal and we desire to strengthen the UN in any way we can.

Mr. Mates summarized a conversation which had ensued among President Tito and other Yugoslav officials present regarding the countries invited to participate in the UN action on the Congo. In reply to President Tito’s query, Secretary of State Popovic stated that Russian troops have not been invited to participate. President Tito indicated that the UN action should not be allowed to become part of the cold war.

Mr. Dillon agreed. He felt that troops for the UN action should come from small countries and from other countries in Europe, including Yugoslavia. Mr. Mates stated that Yugoslavia had agreed to provide troops. President Tito amended this to say “technicians”. Mr. Dillon stated that we did not want to send American troops. He noted that when the Congo authorities had requested us to provide troops we stated that we did not wish to do so. He indicated that we were sending supplies of goods in order to assist and were assisting with the air lift, but were not sending troops. President Tito indicated that he approved of our attitude.

168. Memorandum of Conversation

MC/10 Vanga, July 19, 1960, 11 a.m.

UNDER SECRETARY’S VISIT TO YUGOSLAVIA
July 17–20, 1960

[Here follows the same list of participants as Document 164.]

SUBJECT

Algeria

President Tito noted that the Algerians had for years engaged forces in a fight for freedom, but this whole question still is not resolved.

Source: Department of State, Conference Files: Lot 64 D 559, CF 1274. Confidential. The drafting officer is not indicated; approved by Dillon on July 21. The meeting was held in Tito’s villa. See also Documents 164–167.
He indicated that he understood that the US and the UK are allies to France, but he argued that the Algerian problem is a world problem and that the UN will not be able to avoid responsibility for this question. He knew of and appreciated de Gaulle’s initiative and efforts to resolve the problem but there were other forces in France working against de Gaulle. He emphasized that the situation must not be allowed to drift. Mr. Dillon asked what specifically did Tito suggest. President Tito replied that the problem will have to come to the UN and the solution found there.

Mr. Dillon stated that we want to settle the problem and we desire that the Algerian people decide their future for themselves. De Gaulle had taken the same position, but the situation remains difficult. Mr. Dillon stated that we were pleased when the talks started and very much disappointed when they ran into obstacles. President Tito stated that one thing we can do is advise the French. Mr. Dillon indicated that we had done so and were prepared to continue to do so, but he stressed that it was undesirable to provide such advice publicly.

At this point President Tito adjourned the discussion for luncheon, thanking Mr. Dillon for the clearness and frankness of his remarks, particularly on Cuba which gave him a better understanding of that situation. There was no substantive discussion during lunch.

169. Editorial Note

In August 1960 the Soviet Government proposed that the 15th session of the U.N. General Assembly be the forum for a heads of government meeting on the problem of disarmament. Soviet Premier Khrushchev announced he would attend the General Assembly sessions on September 1, and a number of Communist and nonaligned heads of state followed Khrushchev’s lead, including President Tito. Tito arrived in New York on the S.S. Queen Elizabeth on September 19 and took up residence at the Yugoslav Mission to the United Nations. Anti-Yugoslav pickets convened opposite the mission and loudly demonstrated against Tito’s presence in the United States. On September 22 Tito met with President Eisenhower (see Document 170). On September 23 Tito addressed the General Assembly and on September 28 he met with Premier Khrushchev. Tito also took a leading role in the September 29 effort of nonaligned leaders to arrange a meeting between Khrushchev and Eisenhower. Documentation relating to the Tito visit to New York is in Department of State, Conference Files: Lot 64 D 559, CF 1766.
170. Memorandum of Conversation

New York, September 22, 1960, 5 p.m.

SECRETARY'S DELEGATION TO THE FIFTEENTH SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY
New York, September 19–24, 1960

PARTICIPANTS

US
The President
The Secretary
General Goodpaster
Mr. Foy D. Kohler
Mr. Charles E. Bohlen
Lt. Col. John Eisenhower

Yugoslavia
President Josip Broz Tito
Leo Mates, Secretary General to the President
General Koca Popovic, Foreign Minister
H.E. Marko Nikezic, Ambassador to the U.S., Washington

SUBJECT

Visit by President Tito

There was an exchange of greetings, in which President Tito expressed his appreciation at being afforded the opportunity to meet the President, which he had desired to do for a long time.

The President said he was particularly glad also of the opportunity to make the acquaintance of President Tito, and asked how long he expected to be here and when he had arrived.

President Tito replied that he had arrived on the 20th, but expected to be here only for a very short time.

The President said that he remembered that some two or three years ago there had been a possibility of a visit by President Tito to the United States, but that some difficulties had arisen. He said he always regretted that he had never had an opportunity to visit Yugoslavia, but that when he was at SHAPE he had to avoid visiting any neutral countries, mentioning particularly Yugoslavia, Sweden and Switzerland. He remembered, however, that at that time Yugoslavia, Turkey and Greece had joined in the Balkan Pact, but still as Commander-in-Chief of NATO he did not feel it possible to visit neutral countries.

The President then inquired how the Yugoslav economic development was progressing. President Tito replied that their economy was

Source: Eisenhower Library, Staff Secretary Records, International Series. Secret; Presidential Handling. Drafted by Bohlen. The meeting was held at the Waldorf Astoria.
progressing very satisfactorily, that their industrial production was rising, and that they had made a breakthrough in agriculture so that Yugoslavia was now self-sufficient in grain. He mentioned that industrial production was increasing at a rate of from 13 to 15 percent per annum.

The President expressed particular interest in the development of Yugoslav agriculture, and there followed an extended discussion of various aspects of agricultural problems in both the United States and in Yugoslavia. The President mentioned particularly the problem of our surpluses and the difficulty of using wheat for livestock feeding. He also described the extent of the chief wheat-and-corn-growing areas of the United States and the widespread use in this country of concentrates, such as dessicated alfalfa and oil cake.

President Tito said he believed that Yugoslavia exported frozen baby beef and some canned meat to the United States. He also outlined certain of their agricultural problems and the methods they were taking to overcome them.

The President inquired about the development of hospitals, schools and roads in Yugoslavia.

President Tito said that considerable progress was being made in his country in all these three fields, pointing out that Yugoslav roads before the war had been very bad, but that now they were improving, referring in particular to two main highways—one running to Trieste and the other to Greece. He mentioned in this connection the large number of tourists visiting Yugoslavia.

The President said he would like to see more tourists in the United States, explaining that Americans were great travelers and visited almost every country in the world and spent large quantities of American dollars in the process. He would like to have more foreigners visiting the United States. He felt that this tourism was a good thing since it permitted people to see for themselves that foreigners were not devils. The President said he had read in some newspapers that the Yugoslav delegation might be in New York to act in some way as a mediator between the East and West; that he understood the neutral position of Yugoslavia, but expressed the hope that as the old saying went, it would be neutral on our side. He went on to say that the economic costs of the arms race were so great that there was every economic reason to try to do something about it, quite apart from the fear and anxiety that these excessive armaments generated. He mentioned that the United States spent in one form or another 46 billion dollars on armaments and that if this could be reduced to what was needed for domestic order, there would be an immense amount of money available for other purposes, and we would be in a position to lend much greater financial assistance to the underdeveloped countries; that even if the cost of armaments was
reduced by one-third, this would release more capital than the underdeveloped countries could possibly absorb.

President Tito said that they believed that if it were not possible to reach complete agreement on disarmament now, it would be well to take some initial practical steps and that the savings thus effected could be used for less developed countries in Asia and Africa, which would increase confidence and good will in the world. He said he would like to see any such savings earmarked in advance for this purpose.

The President said he would be delighted if it would be possible to so earmark a certain amount for this purpose.

Secretary Herter pointed out that the President had made a proposal to this effect in 1953.1

The President then observed that it seems as though mankind had to learn the hard way, recalling that the Delphic League in ancient Greece to keep the peace between the city states had not been successful.2 It seems as though human nature was the most constantly unpredictable and dangerous factor in human history.

President Tito remarked that it would be a mistake to base ourselves on past history, since we should deal with the world as it is now, particularly since technological advance at the present time had rendered the problem of armaments more dangerous.

The President agreed, adding that at the present time any great nation had enough power to destroy the whole northern hemisphere. He went on to say that he was not one to assert that all good was on our side and all bad on the other, although we did think that we did better in this regard than the other side. He said that we were ready to deal with anyone who was sincerely desirous of discussing these matters reasonably, with a view to finding some solution.

President Tito said he understood the particular problems which confronted the United States, but that he felt that despite all obstacles and feelings he could understand somehow, at some time the obstacles would have to be overcome, and contact and negotiation established without too much delay, because otherwise the situation would become extremely dangerous.

The President agreed, but felt that only in convocations such as the United Nations would it be possible to get this matter off dead center. He said he would not recite all that we had tried to do in good faith but

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1 Not further identified.

2 Eisenhower was referring either to the Delian League (478–404 B.C.), an Athenian-led group of states that opposed Persia and later Sparta, or the Corinthian League, established in 338 B.C. by Phillip II of Macedonia, which confirmed Macedonian dominance over Greece.
without success. He mentioned that there would be almost 100 nations represented in the United Nations, many of whom were new and stumbling young nations, but all of whom he felt were hungry for peace. He believed that this general desire would have a good effect. He agreed that it would not be possible to wait too long for a start. He mentioned that if each country could know what the other was doing in the field of armament, this would be very helpful as a start. He said that he was getting on in years, but he hoped that his grandchildren would be able to be more optimistic about the state of the world than was now possible.

President Tito replied that the outlook for grandchildren would depend upon the wisdom of the present generation.

The President agreed, and repeated that it was important to be able to understand the point of view of others.

President Tito recalled that the President had made some reference to mediation. There was something to this, but he wished to point out that not only Yugoslavia, but others, had a desire to be helpful in this respect.

The President said he agreed, and mentioned his conversation this afternoon with the Lebanese Foreign Minister,

3 who had remarked on the disparity of size and power between his country and the United States. He said in regard to spiritual and moral matters there was no distinction between the size of countries. That a small country could have as big an effect in this field as a large one and that this, in effect, was the spirit of the United Nations. He added that we all need more faith at the present time.

President Tito stated that he did not think the word "neutral", which connoted a passive attitude, applied to Yugoslavia. It was applicable if it meant not taking sides.

The President said, as he had already remarked, he hoped Yugoslavia would be neutral on his side, adding that there was no neutrality in moral questions of right or wrong.

President Tito then inquired as to what the President's opinion was as to the possible results in this General Assembly.

The President said he thought that something would be accomplished with all of the nations gathered together here with the spotlight of world opinion on them. He didn't expect any dramatic sudden agreement or the throwing into the Atlantic Ocean of missiles and bombs, although he would like to see that done, but rather a start which would give more hope to peoples everywhere. He added that we must never lose hope, and that he was not a pessimist.

3 A memorandum of this conversation is in Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199.
President Tito agreed, and said that he was more of an optimist than a pessimist.

The President said he expected to be back in New York on the 26th, since he had two meetings that morning—one in Philadelphia and one in New York. He wanted to have the opportunity of meeting some of the representatives of countries which he had not previously met.

President Tito mentioned that he had met Khrushchev in the lobby of the United Nations this morning, and expected to see him again, mentioning with a smile that it was some time since he had talked to Mr. Khrushchev.

The President said that during and after the war he had met most of the leaders of Europe, except for President Tito and Franco; he was looking forward to the opportunity of meeting some of the new leaders.

President Tito remarked that he was more hated by the Chinese than was President Eisenhower.

The President remarked that this was one thing that they had in common.

President Tito said that despite the fact that the Chinese hated the Yugoslavs, he felt it would be in the interests of the United Nations for the Chinese Peoples Republic to be represented there; it might make them more responsible, which was extremely important in regard to a country that had over 600 million people, with an increasing population and steadily arming, with the prospect of obtaining the atomic bomb in the future. He said that in such circumstances any disarmament agreement without Chinese participation would not succeed in its purpose.

The President pointed out that the hatred in the United States for the leaders of Red China was so strong that any eager politician that suggested recognition had better start swimming for London. He said that Chinese holding of American prisoners, their subversive activity throughout Asia, and threats of armed force against Formosa all contributed to the strength of this feeling, which he said was indescribable. However, he agreed that a country of over 600 million people, increasing like flies, constituted a very big problem. He want on to say that a year ago when he was in the United States Khrushchev had asked if he wished to discuss this problem. He had replied that since their views were so diametrically opposed, there was no point of even discussing it.

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4 On September 26 Eisenhower addressed the American Institute of Certified Public Accountants in Philadelphia and a dinner for the National Conference of Catholic Charities in New York.

5 Khrushchev visited the United States September 15–28, 1959; for documentation, see Part 1, Documents 108–139.
to which Khrushchev agreed. However, he added that on a subsequent visit to China Khrushchev had made a very conciliatory speech.

President Tito then said he was afraid of taking too much of the President’s time, and felt he should take his farewell.

The President said he had one more question he would like to ask, and that was what was the present population of Yugoslavia.

President Tito replied about 18 million, as compared to an immediate post-war population of some 16 million, pointing out in this connection that Yugoslavia had lost 1/10th of its population—1,700,000 people dead—during the war.

The President said he very much regretted that he had never been able to get to Yugoslavia. During the war he had been in command up north, where he had gone in January, 1944, instead of the southern front, where he had expected to be; and for this reason he had not been in the vicinity of Yugoslavia during the war. He said in conclusion he wished to assure President Tito that the people of the United States wished the people of Yugoslavia the best of everything and a prosperous and happy future. He said that President Tito should understand this, despite the fact that there was a small stratum of our population that had just cause for anger against their regime; but the people had only the friendliest feeling.

President Tito wished to assure the President that the people of Yugoslavia were animated by the most friendly feelings toward the United States and did not forget what the United States had done for Yugoslavia both during and since the war. He was confident that this friendship would develop further. He said he hoped that when the President had somewhat more time at his disposal he would come and visit Yugoslavia. He would like to show him Brioni, in particular.

The President, in saying goodbye to President Tito, said that this was a date.6

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6 Eisenhower never visited Yugoslavia.
171. Memorandum of Conversation


SUBJECT
Call of Yugoslav State Secretary of Finance Regarding Yugoslav Exchange Reform

PARTICIPANTS
Mr. Nikola Mincev, Yugoslav State Secretary of Finance
Mr. Marko Nikezić, Yugoslav Ambassador
The Acting Secretary, Mr. Dillon
Mr. Weiss, OT
Mr. Katz, EE

After an exchange of pleasantries, Mr. Mincev stated that he wished to inform the Acting Secretary of the present status of consideration of the Yugoslav exchange reform proposals. He explained that Yugoslav officials have been working with the staff of the Fund and, as a result of the two missions sent to Yugoslavia,¹ agreement had now been reached on the measures to be taken. The Yugoslav Government in the course of discussions with the Fund had accepted a number of Fund suggestions, such as increasing the rate to 750 dinars to the dollar. The task now was to assure that the reform would be realized. Mr. Mincev pointed out that they were at a critical stage, since the reform should start on January 1, 1961. Because of the need to coordinate the reform with the start of the annual economic plan and annual budget, to postpone the implementation of the plan would mean postponement for a whole year.

Mr. Mincev proceeded to indicate the problems in the path of early implementation of the reform. The first problem concerned the amount of the drawing from the Fund. Yugoslavia has been assured that it can draw $50 million. He felt, however, that on the basis of need and the statutes of the Fund a larger drawing would be indicated. He stated that Mr. Jacobsson had not excluded a larger drawing, but Mr. Jacobsson felt that this should be considered after it is clear to what extent other countries would participate in supporting the reform. Mr. Mincev stated that he would appreciate the support and understanding of the American Director in the Fund.²

Source: Department of State, Secretary’s Memoranda of Conversation: Lot 64 D 199. Official Use Only. Drafted by Katz and approved in U on September 30. Mincev led a Yugoslav delegation to Washington for discussions on the Yugoslav economic development program with U.S. and IMF officials.

¹ Per Jacobsson, Managing Director of IMF, visited Yugoslavia July 1–8; a technical mission arrived in Belgrade on August 10.
² Frank Southard.
The second question concerned the participation of Western Europe in supporting the program. He reported that his Government, through diplomatic channels, had informed the governments of Western Europe of the exchange reform proposals and the need for external support to assure the success of the program. Mr. Jacobsson had offered to help the Yugoslavs and planned to give a luncheon on September 25 to afford the Yugoslav representatives an opportunity to explain to representatives of various governments the details of the program and the requirements for external support. With regard to the procedure for arranging external support, Mr. Mincev envisaged the possibility of arranging a program of support by means of a group of countries. He stated that Mr. Jacobsson was of the opinion that the task of arranging for support for the program was not formally a function of the Fund. Mr. Mincev agreed that the Fund should not proceed in this matter on a formal basis but he thought a practical means of approach might be to work with the various countries through the directors of the Fund. He was concerned that if the Yugoslav Government were to approach this matter on a bilateral basis the result would be lengthy negotiations with dubious prospects. He pointed out that the approaches which had already taken place through diplomatic channels have not produced any firm responses. He mentioned in this connection that an approach had been made to the Governor of the German Bundesbank, Mr. Blessing. At first Mr. Blessing had indicated considerable interest but he later indicated that he could do nothing in view of the absence of diplomatic relations between the Federal Republic and Yugoslavia. Presumably this attitude came after consultations with his Government.

The third question concerned the attitude of the US and the possibility of obtaining support from the US Government. He said that it was evident that the success of the program depended in large part on what the US could offer.

The Acting Secretary stated that we were pleased that the Yugoslav Government had reached agreement with the Fund staff on the details of the reform program. He stated that we were fully prepared to support the program in accordance with the means we have available and we are prepared to proceed parallel with the support which can be obtained from Europe.

Taking the questions raised by Mr. Mincev in order, he stated, first with respect to the drawing from the Fund, that he considered this question the least important. Even if the drawing were not increased beyond $50 million, the funds would still be there and available. He was sure that the US Director would have an open mind and when the facts with respect to implementation of the program were clear, this question could be reconsidered. He was sure that no one would allow the pro-
gram to fail because of the small amount of money involved in a future drawing.

With respect to the participation of European countries, the Acting Secretary agreed with the Minister's thoughts concerning procedure. He felt it was important to have consideration of this matter centralized somewhere and the facilities of the Fund seemed to offer the best possibilities at the present moment. Bilateral talks would take too long and would not be a satisfactory alternative. The Acting Secretary stated that we felt that full participation by Western Europe was essential to the success of the Yugoslav reform program. We believed that European participation should be at least equivalent to our own. We were therefore fully prepared to do anything we could do bilaterally or in other ways to bring about European participation. The Acting Secretary stated that we would be interested in working closely with the Yugoslav officials to have their opinion as to which countries offer the most likely prospects. We considered that the most immediate advantages of the program would flow to Western Europe. We would, therefore, welcome any information regarding trade prospects which would be helpful in obtaining European support in order to put the package together.

The Acting Secretary indicated that he was concerned by what the Minister had said regarding the attitude of Germany. It was our feeling, he said, that it would be essential to get a substantial contribution from Germany. He recognized that the absence of diplomatic relations between Yugoslavia and Germany presented a problem but he stated it would not matter in what form the German contribution was made. It was essential, however, that it make a contribution.

Mr. Mincev at this point reported in some detail the discussion which had taken place with Mr. Blessing. He stated that at a meeting in Basle of the Governors of central banks Mr. Jacobsson had assisted Yugoslav officials in getting in touch with officials of other banks. Mr. Blessing showed greater interest than any of the other Governors. It was proposed that he visit Belgrade, not to commit him to a specific contribution but to discuss the details of the program with him. Mr. Blessing, however, subsequently terminated the correspondence, indicating that he could not come to Belgrade nor take part in discussions on this subject. He stated that he had been told that if the Yugoslav Government wished to discuss this matter with the Federal Republic it would know how to do so.

The Acting Secretary asked whether trade between Yugoslavia and Germany did not remain substantial. Mr. Mincev stated that this was so, that West Germany and Italy were Yugoslavia's two most important trading partners. At the moment Italy was first, Germany was second and the UK third.
The Acting Secretary said that the question of a German contribution was clearly our most immediate problem and that a solution would have to be found to this problem.

With respect to the US contribution the Acting Secretary indicated that we were now in the process of deciding what we might be in a position to do. He said that it had been very helpful to talk with the Yugoslav officials in the past week. While we had had information previously from Belgrade and from Fund officials it was extremely useful to have the information first-hand. We were particularly glad to have representatives from our other agencies brought into the discussions. The Acting Secretary expressed the hope that within two weeks we would have a firm position, provided that the European countries go along with us.

The Acting Secretary referred to one general problem which he had discussed with Vice President Todorovic when he was in Belgrade. He recalled commenting at that time that the amount of the funds Yugoslavia was requesting for support of the program seemed to be very large. On the basis of the information we have now received this view has been confirmed in all our minds, particularly since it appeared difficult if not impossible to obtain the full amount of support being requested. It appeared to us that the $340 million estimate was more than a minimum. It is not that this amount could not be usefully employed, but it seemed to us that the program could be implemented with less. We were hopeful that arrangements could be made to obtain an amount of support which should enable the Yugoslav Government to proceed with the program even if it were considerably less than the amount previously estimated as being required. The Acting Secretary urged that the Yugoslav Government maintain an open mind on this question because we also hoped there would be no delay in putting the program into effect.

Mr. Mincev expressed appreciation for the assurances of support given by the Acting Secretary and stated that his officials would be at our disposal for any further information that we might require.

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3 U.S. and Yugoslav officials held discussions on the dinar exchange rate reform on September 20, 21, and 23. Memoranda of these conversations are in Department of State, Central File 868.131.

4 See Document 163.
172. Memorandum of Conversation


SUBJECT
Yugoslav Exchange Reform

PARTICIPANTS
Mr. Marko Nikezic, the Yugoslav Ambassador
The Under Secretary (Mr. Dillon)
Mr. Leddy, U
Mr. Weiss, OT
Mr. Katz, EE

The Ambassador stated that his Government had now made approaches to a number of countries (UK, France, Italy, Austria, Switzerland, Netherlands, Sweden and Canada) seeking support for its proposed exchange reform. While the initial responses were favorable, there had as yet been no definite commitments. Belgrade was thus becoming increasingly concerned, since there was very little time remaining before January 1, when the reform is to be instituted. The Ambassador wished to know, therefore, how the Under Secretary saw the situation. He asked also whether the Under Secretary felt it would be possible for the US to proceed with its share of the support together with the IMF in advance of other countries.

The Under Secretary acknowledged that European participation in the support package was taking longer to arrange than we liked or had originally contemplated. Perhaps this should have been expected since delays had also been experienced in attempting to arrange support for the Spanish and Turkish reforms. He realized that the Yugoslav situation was made more difficult by the presence of a deadline which was not a factor in the previous situations.

The Under Secretary informed the Ambassador that we had made approaches to all of the countries mentioned by the Ambassador plus Germany and had talked with representatives of some of the countries on several occasions. The reactions we had received were similar to that reported by the Ambassador, i.e., most were favorable but for various reasons definite answers had not been forthcoming. The one difficult problem, however, was Germany. While they haven't refused to partici-

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Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Katz and cleared in U on November 9. [text not declassified]

1 The Turkish Government had requested an IMF loan to allow it to continue a currency stabilization program begun in 1958. The Spanish Government initiated a currency stabilization program in August 1959 and requested an IMF loan in August 1960.
pate, the Germans were having considerable difficulty from a political point of view. Apart from the problem created by the Yugoslav recognition of the GDR, the Germans were unhappy about recent Yugoslav public statements directed against the FedRep. The Under Secretary said we continued to hope that it will be possible for the Germans to participate indirectly through the BIS on the basis of commercial motivations. He pointed out, however, that there would be no opportunity for top level discussion with the Germans until he and Secretary Anderson go to Bonn on November 21. He realized that this delayed the matter later than had been hoped but he saw no other solution at the moment.

As regards the Ambassador’s question whether the US could move first, the Under Secretary said that we hadn’t planned on this for two reasons. First, the amount contributed by the US and the IMF would not be sufficient to meet the needs of the program. Secondly, we had a problem with our own monetary people who felt strongly that the US should proceed jointly with Europe on such matters in order that the burden be shared by countries able to contribute. He pointed out that we were not insisting that we necessarily know what all other countries would do. It was necessary, however, to be sure of at least the bulk of the European contribution, including the Italians and the Germans. He felt that the European participation might well be clear by December 1.

The Under Secretary asked the Ambassador whether December 1 would be too late, and if so, what were the alternatives? Would it be possible to proceed at a somewhat later date? The Ambassador was unable to answer this question without reference to Belgrade.

The Under Secretary stated that he could not realistically encourage the Ambassador to expect anything definite much before December 1. He said that we would, of course, continue our efforts in the meantime and hoped that some countries, particularly Italy, might be able to make a commitment, even though conditional on other contributions, very soon. The Under Secretary suggested that the Ambassador in the meantime talk to Mr. Jacobsson, and he stated we would talk to him also, to see whether he had any further thoughts on the matter. It was also suggested to the Ambassador that he recommend to Belgrade that Yugoslav representatives in the various capitals make further efforts which we could support.

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2 From September until mid-November the Yugoslav press carried out a campaign attacking the Federal Republic of Germany for systematic opposition to improvement in international relations.

3 Under Secretary of State Dillon and Secretary of the Treasury Robert Anderson visited Bonn September 19-22 during a three-nation trip to Europe. Documentation is in Department of State, Conference Files: Lot 64 D 559, CF 1781-1788.

4 In a November 7 memorandum attached to the source text, Walter Stoesssel noted that Leddy had spoken to Jacobsson.
173. Editorial Note

On November 21 the National Security Council issued a revised version of NSC 5805/1, "U.S. Policy Toward Yugoslavia." In a November 23 memorandum accompanying the revised text, James S. Lay, Executive Secretary of the NSC, noted that the NSC Planning Board decided that "only revisions of an editorial nature were necessary to bring this policy up to date." A copy of the revised version of NSC 5805/1 is in Department of State, S/S–NSC Files: Lot 62 D 1, NSC 5805. Regarding NSC 5805/1, see Documents 120 and 122.

174. Telegram From the Department of State to the Embassy in Italy

Washington, November 29, 1960, 9:33 p.m.

1502. Subject: Yugoslav exchange reform. During Dillon conversations in Bonn Nov. 21–22 Germans gave assurances they would find way by end of month or early December participate in assistance Yugoslav program.1 Dillon talks in Paris and London also confirmed readiness French and British participate.2 Other prospective contributors have either indicated firm agreement or agreement in principle.

Accordingly believe time now ripe for meeting of all contributors and Yugoslavia to firm up amounts and discuss terms. View willingness BIS offer its administrative facilities consider Basle most suitable place. Suggest desirable time for meeting would be Dec. 9 and 10, immediately prior meeting of BIS board. This would allow time for completion and transmission to governments of revision of IMF report now being


1 Dillon met with Brentano and Blessing in Bonn on November 21. The Germans agreed that Yugoslavia should be aided but indicated that the existing break in formal diplomatic relations made it difficult for Germany to find a means of supplying aid. A memorandum of this conversation is ibid., Conference Files: Lot 64 D 559, CF 1781.

2 Dillon discussed Yugoslav aid with Couve de Murville on November 24. The Under Secretary of State brought up the same subject in separate meetings with Lord Home and Lloyd on November 25. Memoranda of these conversations are ibid.
undertaken by Ferras who leaves for Belgrade today. (Original report based on external assistance of $340 million instead of lowered target of $270–275 million already in hands of govts.) According Ferras schedule revised report to be finished end this week and transmitted early week beginning Dec. 5. Following Belgrade Ferras presently plans visit Rome, Vienna and Bonn, arriving Basle in time for meeting Dec. 9 referred to above.

View foregoing Rome requested approach Carli asking whether Italy would be prepared, after consultation Holtrop, Chairman of Board of BIS, to take lead in calling meeting at BIS headquarters for Dec. 9. List of potential contributors and amounts which it is hoped they will contribute remains as in Cirtel 535.\(^3\)

Meeting should be unpublicized.

All of foregoing discussed with Jacobsson and Ferras prior departure latter for Belgrade.

For London. Inform Pitblado of substance of foregoing, adding that in Jacobsson’s view discussion of report by Executive Directors of Fund not necessary prior Basle meeting and emphasizing that original report already transmitted to governments. (Pitblado apparently under impression report not transmitted). Embassy may recall that Pitblado stated during Dillon visit that UK ready for meeting at any time.\(^4\)

For Bonn. Inform van Scherpenberg of approach we making to Italians, pointing to urgency of situation and expressing hope that in light assurances given Dillon Germans will be ready in time for Dec. 9 meeting.

For Belgrade. Inform Ferras that this message has been sent and summarize contents. Also inform Yugoslavs that efforts are being made to arrange Dec. 9 meeting and indicate target figures and contributors. In presenting figures avoid impression these decided upon by U.S. or Jacobsson. Rather should be presented as estimates maximum likely contributions apparent from conversations with officials interested countries.

Dillon

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\(^3\) Not printed.

\(^4\) Pitblado was present during Dillon’s November 25 meeting with Lloyd and apparently made the comment at that time. The comment, however, does not appear in any of the memoranda of conversation. The memoranda of these conversations are in Department of State, Conference Files: Lot 64 D 559, CF 1781.
2434. Subject: Yugoslav exchange reform. Following is summary discussions Basel December 10-11:

(1) Italy: Carli indicated Italians prepared extend $35 million credit. Order implement quickly and to avoid Parliamentary action propose extend credit to existing account Yugoslav National Bank under previous agreement. $13 million of total would be in form which would cover payments made by Yugoslavs in 1960. This amount would be available in cash immediately and could be used by Yugoslavs for purchases from any source. Remaining $22 million would be available for purchases only of Italian goods. According Carli Yugoslavs have orders outstanding in Italy approximating $100 million (covered by one to two year credits). The $22 million portion would thus represent extension terms these latter short term credits.

Carli indicated Italians flexible on terms and would look see what terms offered by other participants. He mentioned 10 years as possibility if others did same. Carli had with him text agreement with only terms left blank which he discussed with Smole in Basel. Carli unable attend December 16 meeting Paris but Italy will be represented.

(2) UK: Stevens and Rootham confirmed they prepared contribute but were not prepared specify amount and terms since decision this regard will depend on what others intend do. They indicated they could not agree to repayment term as long as 15 years but did not preclude 10 years. Interest rate would be going rate in British market. Indicated they wished see credits untied to maximum extent feasible and prepared provide completely untied credit if other Europeans do so. They regard US special case and would not consider fact US credits tied as consideration their own action. They prepared use BIS as agent on strictly procedural basis but opposed any arrangement imposing long term financial liability on BIS. They appear prefer arrangements be worked out on bilateral basis with some variations possibly in terms from one contributor to another. UK plans be represented at Paris meeting.

(3) Germany: Blessing and Emminger stated decision has been taken to provide $35 million of which $25 million would be untied and $10 million used to [for?] procurement in Germany under [garble] sys-

tem. $25 million portion will be provided by private banking syndicate with guaranty through credit Anstaltfurweideraufbau. Blessing has had talks with private banks and is confident syndicate would be organized and funds provided. Terms contemplated are six years for $25 million portion and not exceed 5 years for export credit guarantee as is normal under existing system. Blessing gave assurance Germans would attend Paris meeting but unsure type representation (i.e. government or bank).

(4) Sweden: As Brink indicated Sweden had not yet really focussed on problem. Intimated Swedes would probably participate if others do so. Expressed preference for untied credits. He expected Swedes would attend Paris meeting.

(5) Netherlands: Holtrop stated government decision not yet taken but thinking running in direction of $5 million revolving credit available for purchase raw materials as well as equipment subject only requirement purchase through Dutch merchant. Said effect would be same as untied credit. Terms would be normal for item purchases, i.e., six months to one year but he stated money could be turned over so that could be effective five year credit. (Note: Smole and Ferras have question utility this arrangement as part support package). Holtrop stated Netherlands would be represented December 16 meeting and hopes firm decision will be ready by that date.

(6) Austria: Kamitz reported his government favorably inclined toward participation support package. However due past generosity Austrians to Yugoslavs ($10 million equipment credit 1951 recently extended by $6 million) and possible consequent Parliamentary difficulty would prefer channeling any new credits through multilateral instrument, e.g., BIS or IMF. Also feel that contribution should be less than whatever UK proposes although talked in terms $10 million. Although Kamitz does not expect be able attend Paris meeting Austria will have representatives there.

(7) France: Brunet and Calvet not directly involved in Yugoslav program but were quite firm in stating that France could not go beyond $10 million export credit guarantee. Were flatly opposed to any untied credit and stated would be concerned about decision IMF extend part of drawing in French francs. They point previous generous assistance given Yugoslavia by France in form export credits and technical assistance for which France has not been rewarded politically. Finally they indicated Sadrin of Treasury was appropriate official French Government for this matter and they would discuss matter with him.

(8) Switzerland: Schwenger not well informed intentions Swiss Government although appeared favorably disposed [disposed?] personally to Swiss participation. Asked for copy IMF report which we will attempt have sent by Paris IMF office.
(9) Belgium: Although Belgians not previously consulted Upton took opportunity discuss with Ansiaux following Smole indication approach made by Yugoslav Ambassador Brussels. Ansiaux indicated $5 million export credit guarantee might be possible. Have asked Embassy Brussels take soundings with Belgian Government order determine whether invitation should be sent for Paris meeting.

(10) BIS: Guindey and Holtrop reiterated willingness BIS offer all appropriate assistance such as (A) provision physical facilities (they in fact provided office space US representative over weekend); (B) acting as syndicate manager for assistance channeled through BIS subject examination details any proposed arrangement. Still prepared consider extension BIS credits on basis time deposits provided however no risk to BIS. For own part BIS has authorized doubling present 100 million franc limit on uncovered credits but these limited three months. Latter can be extended for additional periods but they stated credit could not be permitted degenerate into five year credit. Given limited role BIS could play (i.e., tiding Yugoslavs over brief periods when cash short) they feel their participation could not be included in package. (Note: Yugoslavs informed extension limit BIS uncovered credits but unaware precise amount new limitation.)

(11) IMF: Stated Jacobsson authorized him indicate Jacobsson prepared recommend additional $4 million to proposed IMF drawing. Ferras has not divulged this to Yugoslavs and cautioned us not do so.

(12) Believe Basel discussions productive and that matters proceeding satisfactorily. See no need for further action by Department at this time.

Houghton

176. Telegram From the Embassy in France to the Department of State

Paris, December 16, 1960, 10 p.m.

2533. Meeting of countries participating support package for Yugoslav exchange reform held December 12 [16] at OEEC Headquar-

ters. All contemplated participants represented plus observers IMF, BIS and OEEC. Yugoslav not invited morning session. German Government not represented but official of German Deutsch Bank (Pirkham) was present as observer only.

Ferras gave brief description proposed reform and indicated IMF directors set December 21 to act on Yugoslav drawing. It was indicated that package should be announced in connection IMF action and Ferras agreed it possible withhold IMF announcement few days order wait for those countries who have yet to take firm decision.

Following description proposed US contribution, Italian, British and French representatives described their proposed contributions along lines explained to US representatives at Basel (Paris Embassy telegram 2434 to Department). Since German representative had indicated he not in position to speak US representative (Martin) summarized our understanding proposed German contribution as explained by Blessing at Basel and confirmed by Harcourt yesterday. (Harcourt indicated yesterday delay arising out of technical problem which has arisen illiquidity private German banks.) Bundesbank understood to be seeking solution. We have asked Bonn attempt expedite decision so as in any case be prepared inform Fund prior December 21 meeting. (UK criticized failure Germans untie total amount, saying made almost impossible to untie theirs.)

Netherlands representative indicated intention offer $5 million revolving credit as described by Holtrop at Basel.

Swiss representative stated no decision could be expected prior January 1 and while he thought Switzerland wished to join in package Swiss contribution would be less than $10 million.

Austrian representative indicated decision before December 21 unlikely and that his government wished to see what others prepared to do, but would participate.

Swedish representative stated he without instructions and he would report today's discussion to Stockholm.

In general discussion suggestion was made for a coordinating instrument to receive and disseminate information on implementation Yugoslav reform and status disbursement and repayment credits. Text such proposal (actually prepared by BIS representative but not attributed to him) was circulated informally. However, representatives were not in position decide such matter and it was felt that matter would have to be considered subsequently in Washington when package finally

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1 Document 175.

2 Blessing's comments were reported in Document 175.

3 Holtrop's comments were reported in Document 175.
developed. If BIS is to be used in such manner, it was agreed effort would be made to notify BIS authorities before next BIS meeting in January.

In afternoon session Yugoslavs were present. They briefly summarized what Yugoslav program seeking to accomplish and answered questions which had arisen in course discussion.

Meeting approved memorandum summarizing contributions envisaged by countries. Copies being carried there by Department officers. Copy given Yugoslavs with invitation to use time between now and 21st to improve amounts and terms by bilateral discussions.

US pressed for Austrian and Swiss decision in principle next week, even if necessary it be subject parliamentary approval so that announced package could be adequate, full US participation assured (recalling US unwilling put up more than Europeans) and to take advantage of participation in multilateral package from start, point to which they had attached importance.

Houghton

177. Operations Coordinating Board Report


REPORT ON YUGOSLAVIA (NSC 5805/1)¹
(Approved by the President April 16, 1958)

(Period Covered: December 24, 1959 through December 21, 1960)

1. National Independence. There has been no change during the past year in the independent status of Yugoslavia. The Yugoslav Government has continued to manifest both ability and determination to maintain its independence.

¹See Documents 120 and 122.
2. **International Position.** The Yugoslav Government has continued its policy of seeking to avoid alignment either with the Soviet bloc or the Western alliance. The Yugoslav leaders have increasingly sought to identify themselves with the aspirations and neutralist views of the uncommitted and newly-emerging nations of Asia and Africa and to play an influential role among these nations. Thus, at the UN General Assembly meeting in September, Tito took an active part in the preparation and presentation of the five-nation resolution calling for a renewal of contacts between the United States and Soviet heads of government for the solution of outstanding problems by negotiation.\(^2\) The Yugoslav Government is also actively endeavoring to develop bilateral economic, cultural and political relations with the uncommitted countries. This course, by its prospect of new friendships with these countries and greater maneuverability in Yugoslav foreign policy, appears to have strengthened Yugoslavia’s international standing, and particularly its position vis-à-vis the Soviet Union. These developing relations have the advantage of permitting the uncommitted states to contrast by firsthand observation Yugoslavia’s benefits derived from U.S. assistance—which has been extended without political conditions—with the danger of Soviet political domination. On the other hand, these developing relations facilitate Yugoslavia’s promotion of a philosophical and political outlook, based on its interpretation of Marxist ideology, which could affect both the internal political development and the foreign policy orientation of the uncommitted states.

3. **Sino-Soviet Bloc Relations.** Except for Communist China and Albania, which continue to be sharply critical of Yugoslav policies, the bloc, with a few noteworthy exceptions, has generally continued to refrain from polemical exchanges with Belgrade, and current state relations are relatively normal. Nevertheless, Moscow recognizes that Yugoslav revisionism (for example, Kardelj’s recent book “Socialism and War”) remains a significant threat to the unity of the Communist bloc and continues its effort to counteract and isolate Yugoslav political and ideological influence in Eastern Europe. Moreover, divergent views within the bloc toward Yugoslavia have exacerbated intra-bloc Party relations and the Sino-Soviet dispute.

4. **Economic Progress.** Yugoslavia has continued its rapid economic development during the past year. In order to stimulate further economic growth through removal of impediments to foreign trade arising from multiple exchange rates, the Yugoslav economic planners are

\(^2\) On September 29 Presidents Tito, Sukarno, Nkrumah, and Nasser, and Prime Minister Nehru announced that they were offering a resolution to the 15th Session of the U.N. General Assembly calling for an early meeting of Khrushchev and Eisenhower. The resolution was subsequently withdrawn by its sponsors.
about to undertake a reform of its foreign exchange system. This project, if successfully carried out, will draw Yugoslavia closer to the economy of the Free World. Consequently, the United States, in cooperation with Western European countries and international financial institutions, is currently seeking to work out a program of financial support for this reform. As a result of Yugoslavia's success in the field of agriculture, U.S. assistance to Yugoslavia has shifted from the provision of agricultural commodities to supplying capital credits for industrial development. During the last fiscal year the Development Loan Fund has approved loans to Yugoslavia totaling $37.8 million for a plastics plant near Zagreb and for additional diesel locomotives.

5. **Internal Liberalization.** While the Yugoslav regime remains an authoritarian Communist dictatorship and deals severely with any internal political dissidents, there has been a gradual and continuing, if unspectacular, trend toward liberalization within Yugoslavia, particularly in the economic sphere. Yugoslav economic development has been accompanied by some decentralization of political authority, through which the regime is seeking to broaden its base of popular support. This decentralization will be reflected in a constitutional revision in the coming year. Since the death of Cardinal Stepinac, a cautious rapprochement has been taking place between the regime and the Catholic Church, which has led the Church to propose certain terms that may form the basis for eventual negotiation of a modus vivendi with the regime.

6. **Expanded Contacts with the United States.** Both private and official exchanges and contacts between the United States and Yugoslavia have continued to grow in various fields. These have included visits by high-level officials of both countries: during the past year the Yugoslav Secretaries of Education and Agriculture have come to the United States on leader grants, and Secretary of Agriculture Benson, Under Secretary of State Dillon, and USIA Director Allen have visited Yugoslavia. In the course of Tito's attendance at the General Assembly Meeting at New York, he met with the President. The meeting was conducted in a cordial atmosphere and is believed to have made a favorable impression on Tito. In addition, the U.S. Sixth Fleet paid highly successful calls at two Yugoslav ports.

While Yugoslavia remains the only Communist country in which the United States carries on a regular USIS program, Yugoslav officials

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3 February 10.
4 Benson visited Yugoslavia on September 25, 1959; Dillon on July 17–20, 1960; and Allen on September 8–15, 1960.
5 See Document 170.
6 May 13–15; the U.S.S. *Des Moines*, *Forrestal*, and *Gyatt* visited Yugoslavia.
have shown an increasing interest in reciprocity by seeking to expand their activities in the cultural field in this country.

7. Maintenance of Armed Strength. After U.S. grant military assistance to Yugoslavia was terminated in December 1957 at Yugoslavia’s request, a new military sales agreement was concluded, under which the Yugoslavs are permitted to purchase military equipment, materials and services from the United States. In the last year, the Yugoslavs have continued to buy quantities of spare parts in this country, as well as more than 100 jet aircraft. The Yugoslavs have also indicated interest in the purchase of 120 additional jet aircraft from the United States. While Yugoslavia’s armed forces do not meet fully modern standards, its armed strength appears sufficient to discourage a limited attack by any of its Soviet-dominated neighbors.

8. Problems in U.S.-Yugoslav Relations. During the past year, and particularly since the collapse of the Summit Meeting, Yugoslav foreign policy has been strongly influenced by fear of war and by the strength of the Soviet Union. Partly for this reason, but more importantly because of their basically Marxist approach to such questions, the Yugoslavs have continued to side with the Soviets on most major international issues. While a principal current problem in U.S.-Yugoslav relations is to seek greater balance in Yugoslavia’s positions on international issues, it should be recognized that by large the solution to this problem lies outside the framework of U.S.-Yugoslav bilateral relations in the broader field of international developments.

9. Policy Review. The agencies represented on the Working Group on Yugoslavia have reappraised the validity and evaluated the implementation of U.S. Policy Toward Yugoslavia (NSC 5805/1) in the light of operating experience. They believe there is no need for the National Security Council to review the policy at this time and that there are no developments of such significance as to warrant sending a report to the National Security Council.\(^7\)

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\(^7\)The Semi-Annual Appraisal of U.S. Policy Toward Yugoslavia, approved by OCB on July 6, 1960, stated that although no policy review was necessary, “in the light of NSC Action 2215-c, the policy paper could be updated.” The NSC Planning Board completed editorial revision of NSC 5805/1 on November 21, 1960. [Footnote in the source text.]
178. Editorial Note

On December 27 the Yugoslav Government formally announced its monetary and trade reform program. The four main points of the program were a single exchange rate, progressive liberalization of import quotas, replacement of government subsidies for exports with a system of tariffs, and credit arrangements amounting to $275 million to facilitate these reforms. The U.S. Government and International Monetary Fund simultaneously announced that the required $275 million would be available for the use of the Yugoslav Government. For text of the U.S. statement, see Department of State Bulletin, January 16, 1961, page 85.

The Yugoslav monetary and trade reform program went into effect on January 1, 1961.