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AC/89-WP/155

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

YUGOSLAVIA'S ASSOCIATION WITH COMECON

Note by the Chairman

At the suggestion of the Italian Delegation(1) the Sub-Committee has further studied the recent evolution of relations between Yugoslavia and COMECON on the basis of a number of notes received from various delegations(2).

2. The attached note containing a synthesis of the information thus far available has been prepared by the Economic Directorate in order to facilitate further discussion of this problem at the next regular meeting of the Sub-Committee.

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

(1) AC/127-R/140, Item V(5)(ii) - 17th July, 1964.

- (2) AC/89-WP/130 - Note by the Italian Delegation
AC/89-WP/136 - Note by the German Delegation
AC/89-WP/136/1 - Note by the German Delegation
AC/89-WP/136/2 - Note by the Belgian Delegation
AC/89-WP/136/3 - Note by the German Delegation
AC/89-WP/136/4 - Note by the United States Delegation

NATO CONFIDENTIAL

YUGOSLAVIA'S ASSOCIATION WITH COMECON

On 17th September, 1964, the Yugoslav Government and the COMECON Secretariat exchanged letters by which it was agreed that Yugoslavia would participate in certain COMECON activities. This was a culmination of a development which had started with the thaw in Soviet/Yugoslav relations early in 1963 and had led to Yugoslavia's resuming an earlier practice of sending representatives to meetings of certain COMECON Commissions(1).

2. In order to evaluate the process of improving relations leading to this special agreement, the present paper attempts firstly to ascertain the position of Yugoslavia, and secondly to indicate the changes in the internal situation of COMECON countries, which modified the practical application of the COMECON statute. From this follows the special place Yugoslavia takes in COMECON. Finally, some tentative conclusions are drawn.

I. Position of Yugoslavia

3. Yugoslav sources have stressed that the agreement is an application of Yugoslavia's basic policy of economic co-operation with all countries and regional economic organizations on the basis of full equality. The association with COMECON brings about a measure of balance in Yugoslavia's relations with international trade and financial organizations, which have been heavily weighted in favour of western organizations.

4. After the break-away of Yugoslavia from the Soviet bloc in 1948, it became a full member of the International Monetary Fund and the International Bank for Reconstruction and Development. It is also a member of the Customs Co-operation Council, the Bank for International Settlements, the International Chamber of Commerce and the International Federation of Agricultural Producers. Yugoslavia has been associated with GATT since 1959 and was granted provisional accession to GATT in 1962. Yugoslavia is currently carrying forward a programme to liberalise its foreign trade and payments system so that it can achieve full GATT membership. In 1955 the OEEC invited Yugoslavia to attend its meetings in the capacity of an observer. A special working party was set up in 1956 to facilitate discussions between Yugoslavia and member countries of the OEEC on problems of mutual interest. Yugoslav authorities were asked in 1961 to participate in the work of the Economic and Development Review Committee. Yugoslavia also sat on the Scientific and Technical Personnel Committee and the Scientific Research Committee(2). At the request of the Yugoslav Government, the OECD is also sending groups of experts to Yugoslavia and financing study abroad of Yugoslav technicians.

(1) See AC/127-D/165 - paragraph 31.

(2) See Annex I for a comparison of the position taken by Yugoslavia in the OECD and in COMECON.

5. In addition, Yugoslavia has requested discussions with the European Economic Community to protect its trade interests with the latter. Already in 1962 Yugoslavia tried to obtain special preferences from the Common Market. An agreement at that time was hampered by the fact that diplomatic relations between the Federal Government of Germany and the Yugoslav Government had been broken off in 1957. In November 1964 the Federal Government - after bilateral discussions with Yugoslavia - allowed negotiations on a technical level between Yugoslavia and the Community. From 25th to 29th January, 1965, discussions took place between representatives of the Common Market and Yugoslavia in Brussels, concerning the development of trade between them and existing barriers to exports from the latter to the former. A second meeting is due to take place in May 1965.

6. Economic considerations have played a great part in bringing Yugoslavia nearer to COMECON. In its trade with underdeveloped countries, Yugoslavia has not achieved impressive results. It is mostly through credits that it has exported its products to these countries. Its trade balance⁽¹⁾ with the NATO countries has shown a considerable deficit which amounted in 1962 to \$199 million, in 1963 to \$190 million and in 1964 to \$262 million (see Annex II for details). President Tito has declared that this tendency must be corrected. Yugoslavia will have to bring its imports more in line with its earnings from exports of commodities and from invisibles such as tourism. The most promising openings appear to be in planned economies which, through their control of the economy, can absorb quickly comparatively small amounts of imports. At the same time Yugoslavia's products may find more easily a market in Eastern Europe than in the West because, although often of poor quality, they are still better than the domestic products of the East. The share in total trade of trade with the East has risen sharply from 22.5% in 1962 to 31.0% in 1964 (see Annex III for the shares in 1948 and from 1953 to 1964).

II. Developments in COMECON

7. As recently as November 1960, the joint declaration of 81 Communist Parties adopted in Moscow sharply attacked the Yugoslav revisionists, accusing them of having betrayed Marxism/Leninism. This condemnation of the Titoists very quickly became an embarrassment to Soviet leaders, since the same liberal tendencies for which Yugoslavia has been branded as revisionist began to appear in the Soviet sphere of influence and in the USSR itself. This development in a liberal direction has diminished the ideological distance between Yugoslavia and the COMECON countries and has laid the base for the present rapprochement.

(1) The trade balances given in this paragraph contain not only merchandise but also some invisibles.

8. At the July 1963 Council meeting of COMECON, the Soviet Union endorsed the "interested party" approach(1). The principle of unanimity was no longer binding(2). Bilateral and multilateral agreements between members were now possible inside the COMECON structure. This broke the log-jam created by Rumania's opposition to a number of proposed all-member COMECON projects such as Intermetal and the international ball-bearing trade association. The agreement with Yugoslavia is a further step in the movement away from the earlier absolute centralism toward a kind of federalism in the Soviet bloc.

9. Rumania - whose conceptions concerning national self-determination are now very close to those of Yugoslavia - has made the first important step to the new practical application of the COMECON statute. It was therefore possible for Yugoslavia to associate with COMECON without a denial of its basic principles. However, it was perhaps the perspective of a future association of Yugoslavia and other countries which enabled the USSR to accept the changes proposed by Rumania. The Soviet Union could also agree on these changes because it has still the possibility, through its huge market and economic power, to influence COMECON even in its changed state.

III. Nature and importance of the association of Yugoslavia with COMECON

10. The agreement reached between Yugoslavia and COMECON countries permits Yugoslavia to participate in certain COMECON activities(3). It will have an advisory vote on questions of common interest in the bodies where it may participate. It has also been stated that on other matters Yugoslavia may take part on an informative basis, i.e. participate as an observer. Recommendations of COMECON bodies affecting Yugoslavia will be considered valid only after the recommendations are endorsed by the Federal Executive Council of the Yugoslav Government. This gives Yugoslavia the same right of ratification which full members have on issues or changes not affecting the basic statutes of COMECON.

11. According to reports which have not been officially confirmed, the Yugoslav representative on each of the COMECON Commissions will be provided with the agenda for that Commission and will thus be able to determine whether he wishes to attend

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- (1) The statute of COMECON (AC/89-D/32) takes into account the claims of individual members to independence - Article I, paragraph 2: "... co-operation between the member countries of the Council will take place with ... respect for sovereignty and national interest".
 - (2) An exception constitutes changes of statutes where the principle of unanimity still obtains.
 - (3) See Annex I for a comparison of the position taken by Yugoslavia in COMECON and in the OECD.

its meeting. Reportedly such attendance must be agreed to by other members of the Commission and Yugoslav representatives are to participate only when matters of mutual interest are under discussion. The agenda of the COMECON Council and Executive Committee will not normally be given to the Yugoslavs. Present plans call for the assignment of two officials attached to the Yugoslav Embassy in Moscow (seat of COMECON) to act as permanent Yugoslav representatives to COMECON bodies.

12. The Yugoslav/COMECON relationship appears imprecise, and, according to unofficial Yugoslav statements, both sides will have to feel their way as to what form their co-operation will eventually take.

13. The agreement with Yugoslavia was concluded on the basis of Article X of the COMECON statute(1), which deals with co-operation with non-members. According to Tanjug - the official Yugoslav Press Agency - the Yugoslav agreement may possibly serve as a model for future agreements with other non-members. It was also a partial fulfilment of the wish expressed by Rumania, which called for the expansion of membership to other countries. Perhaps Cuba, who already sends observers to a number of COMECON commissions, the United Arab Republic, Algeria or some other African country will be the next to join.

IV. Conclusions

14. (i) The recent agreement between Yugoslavia and COMECON does not make this country a full member of this organization. The association will be of a limited nature for the present time, and only future developments will clarify the precise nature thereof.
- (ii) The fact that Yugoslavia - which is not a member of the Warsaw Pact - has succeeded in having its relations with COMECON legally defined underlines the liberal developments of COMECON towards a kind of federalism.
- (iii) This new evolution of COMECON holds more attractions for some COMECON countries and creates possibilities for other countries to join it.
- (iv) Yugoslavia's association has given new opportunities to its foreign trade as the impressive increase in this trade with the Soviet bloc reveals. (Trade has nearly doubled between 1962 and 1964.)
- (v) The association with COMECON does not mean that Yugoslavia wants to break its ties with the West as recent readiness to negotiate with the Common Market shows.

(1) Co-operation with non-members. Article X of COMECON statute states: "The conditions under which the representatives of these countries can take part in the work of the Council's organs shall be laid down by the Council in agreement with the countries concerned".

Organs, Commissions and Committees of: COMECON	Yugoslavia is member of:		Organs, Commissions and Committees of: OECD
- Council			- Council
- Executive Committee			- Executive Committee
<u>Commissions</u>			<u>Committees</u>
for:			for:
- Economic questions		x	- Economic questions
- Iron and Steel	x		- Economic and Development Review
- Non-ferrous metals	x		- Iron and Steel
- Coal industry			- Non-ferrous metals
- Electric power			- Coal industry
- Oil and gas industry			- Electricity
			- Oil and gas
- Chemical industry	x		- Energy
- Machine industry	x		- Energy Advisory Commission
			- Chemical products
- Light industry			- Machinery
			- Textiles
- Construction industry			- Timber
- Transport			
- Agriculture		x	- Pulp and paper
			- Hides and skin
- Foreign trade	x	x	- Cement
- Atomic energy			- Maritime transport
			- Agriculture
- Statistics			- Fisheries
- Scientific and Technical Research	x	x	- Foreign trade
			- European nuclear energy agency
- Standardisation		x	
- Foreign exchange and finance questions (Bank of International Economic Co-operation)	x		- Scientific and technical personnel
			- Scientific research
- Radio technology and electronics			
- Geology			- Payments
- Food industry			
			- Invisible transactions
			- Development assistance
			- Technical co-operation
			- Manpower and social affairs
			- Insurance
			- Taxes
			- Experts on restrictive business practices
			- Tourism

NATO CONFIDENTIAL
ANNEX IIA to
AC/89-WP/155

GEOGRAPHICAL BREAKDOWN OF YUGOSLAVIA'S FOREIGN TRADE
1948, 1953-64

(in million US dollars)

Yugoslavia's Foreign Trade with:

	World			NATO Countries in Europe			North America			Eastern Europe(a)		
	Imports	Exports	Trade balance(b)	Imports	Exports	Trade balance(b)	Imports	Exports	Trade balance(b)	Imports	Exports	Trade balance(b)
1948	360	303	- 57	114	74	- 40	11	8	- 3	181	150	-31
1953	395	186	-209	194	121	- 73	145	26	-119	-	-	-
1954	334	236	- 98	162	147	- 15	103	23	- 80	4	7	+ 3
1955	441	257	-184	169	129	- 40	144	28	-116	33	36	+ 3
1956	473	322	-151	151	144	- 7	131	28	-103	105	73	-32
1957	661	395	-266	236	167	- 69	174	34	-140	143	105	-38
1958	685	441	-244	241	176	- 65	134	34	-100	194	123	-71
1959	687	477	-210	241	182	- 59	142	32	-110	170	147	-23
1960	826	566	-260	330	213	-117	92	39	- 53	212	182	-30
1961	910	569	-341	396	220	-176	183	38	-145	169	176	+ 7
1962	888	691	-197	325	255	- 70	184	55	-129	189	167	-22
1963	1,057	790	-267	365	330	- 35	204	49	-155	241	211	-30
1964	1,322	892	-430	465	327	-138	177	53	-124	379	308	-71

- (a) USSR, Albania, Czechoslovakia, Bulgaria, Hungary, Soviet Occupied Zone of Germany, Poland, Rumania.
(b) This column does not give the exact trade balance since imports are given in c.i.f. values.

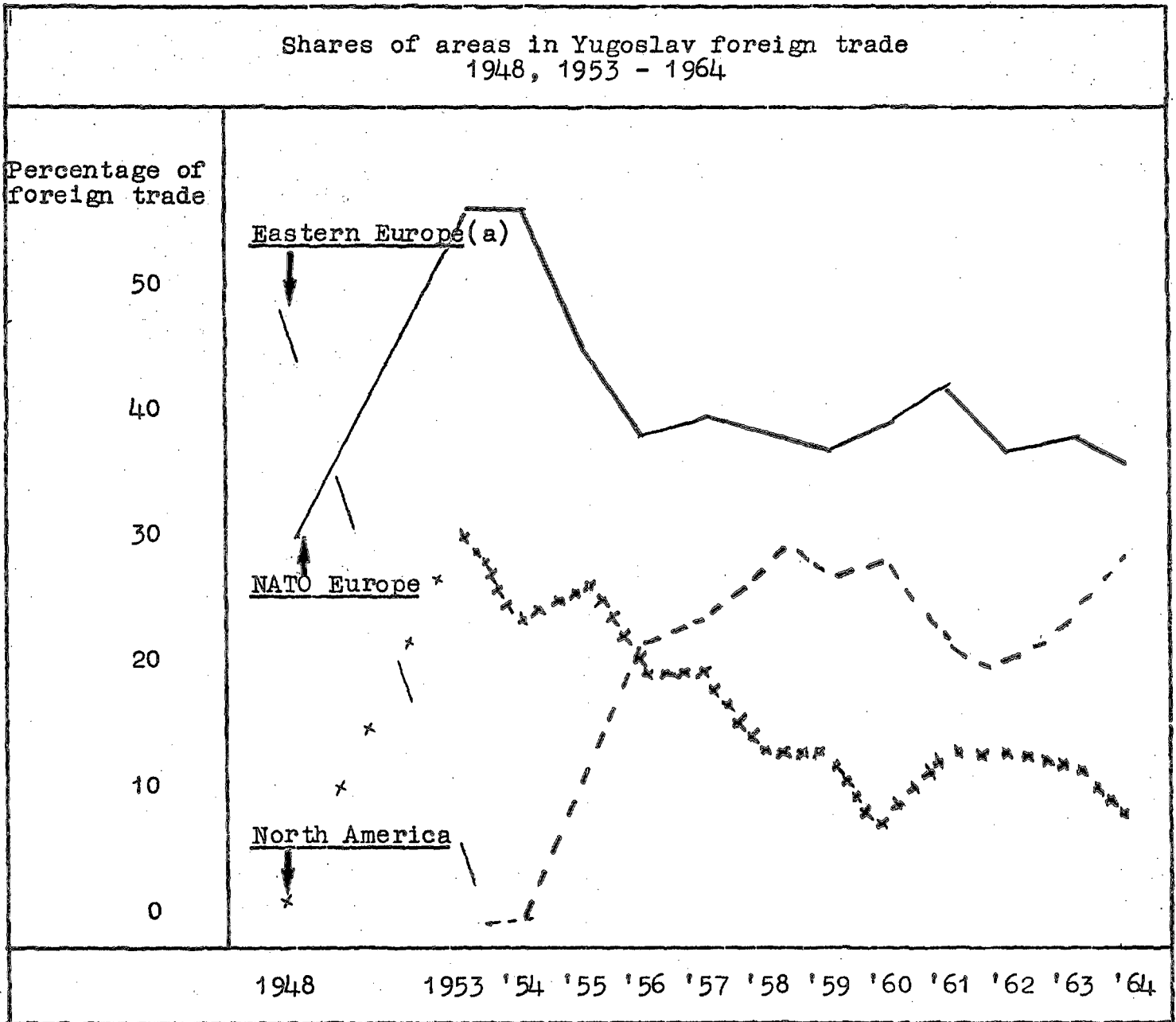
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MAIN TRADING PARTNERS OF YUGOSLAVIA IN 1964

(in percentage of total imports or exports)

	Share in Yugoslavian imports	Share in Yugoslavian exports
	%	%
NATO countries in Europe	35.2	49.3
of which:		
Italy	13.2	14.8
Federal Republic of Germany	8.6	9.0
United Kingdom	5.2	6.2
France	3.6	2.0
Netherlands	2.0	1.0
North America	13.4	6.0
of which:		
United States	13.1	5.8
Eastern Europe	28.6	34.6
of which:		
USSR	7.6	13.0
Czechoslovakia	6.2	5.0
Soviet Occupied Zone of Germany	5.5	7.1
Poland	4.5	4.4
Hungary	2.7	2.7
Other countries	22.8	10.1
Total trade	100.0	100.0

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(a) USSR, Albania, Czechoslovakia, Hungary, Bulgaria, Rumania, Soviet-occupied Zone of Germany, Poland.