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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

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YUGOSLAVIA'S ASSOCIATION WITH COMECON

23/8/65

Note by the Chairman

The attached note attempts to provide a synthesis of the information thus far available to the Sub-Committee on Soviet Economic Policy. It may be used as a background paper in further examination of Yugoslavia's economic development and purposes.

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

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YUGOSLAVIA'S ASSOCIATION WITH COMECON

1. 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 reach some conclusions on this agreement, the present paper reviews briefly the developments in Yugoslavia's economic foreign relations since the war as well as the evolution in Eastern Europe, specially as regards the COMECON concept, and it also describes the special position of Yugoslavia in COMECON.

I. Developments in Yugoslavia's foreign economic relations

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.

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

(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.

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 under-developed 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 II 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.

8. The Soviet Union tried to make a supranational organization out of COMECON but it was thwarted at Council meetings in 1962 and 1963 by Rumania(2). This opposition led the USSR to abandon its earlier policy. The Soviet Union has nevertheless retained the possibility, through its huge market and economic power, of influencing COMECON even in its present form. The looser co-operation within COMECON has made it possible for Yugoslavia to associate without denying its basic principles.

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- (1) The trade balances given in this paragraph contain not only merchandise but also some invisibles.
 - (2) The statute of COMECON (AC/89-D/32) takes into account the claims of individual members. Article IV, paragraph 3: "The recommendations and decisions do not concern countries which have abstained on a question".

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

9. The agreement reached between Yugoslavia and COMECON and formalised on 24th April through the exchange of ratification instruments between the former and the latter permits Yugoslavia to participate in certain COMECON activities(1). 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.

10. 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 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.

11. The Yugoslav/COMECON relationship appears imprecise and limited, and according to unofficial Yugoslav statements both sides will have to feel their way as to what form this co-operation will eventually take. The limited nature has been recently demonstrated by the absence of Yugoslavia at the April Executive Council meeting first held after Yugoslavia's association to COMECON.

12. The agreement with Yugoslavia was concluded on the basis of Article X of the COMECON statute(2), 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 in line with the wish expressed by Rumania, which called for the expansion of membership to other countries.

13. At nearly the same time as the thaw started in Yugoslavia's relations with COMECON countries early in 1963, trade between the latter and the former increased sharply, especially Yugoslavia's imports. This increase in imports led to a considerable deficit which obliged Yugoslavia at the end of 1964 to reduce imports in order to balance this trade (see graph). At the same time a similar deficit occurred in its trade with OECD Europe, Yugoslavia's main trading area of the free world (70% of its trade with the free world). However this deficit was mainly caused by a decrease during 1964 of Yugoslav

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

(2) 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".

exports to this area. Buoyant internal demand and rising costs have had an unfavourable effect on Yugoslavia's export possibilities to the Western countries. The rising costs have perhaps a smaller impact on Yugoslav exports to the COMECON countries. As prices seem to be generally higher in trade between COMECON countries than in the free world(1), Yugoslavia might have a better competitive position on the market of the former countries.

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 liberal development of COMECON has enabled Yugoslavia to associate with COMECON; this association is in accordance with Yugoslavia's basic policy of co-operation with all countries and economic organizations.
- (iii) Since the resumption of closer contacts between Yugoslavia and the COMECON countries in 1963, trade between the former and the latter has shown a rapid increase. This trade has nearly doubled between 1962 and 1964. The increasing deficit, however, led Yugoslavia to curtail imports at the end of 1964 and the beginning of 1965.
- (iv) 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) AC/80-WP/153

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

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ANNEX II to
AC/89-WP/155 (Revised)

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 |

YUGOSLAVIA'S FOREIGN TRADE

(Monthly averages corrected for
seasonal variations.
Millions of dollars.)

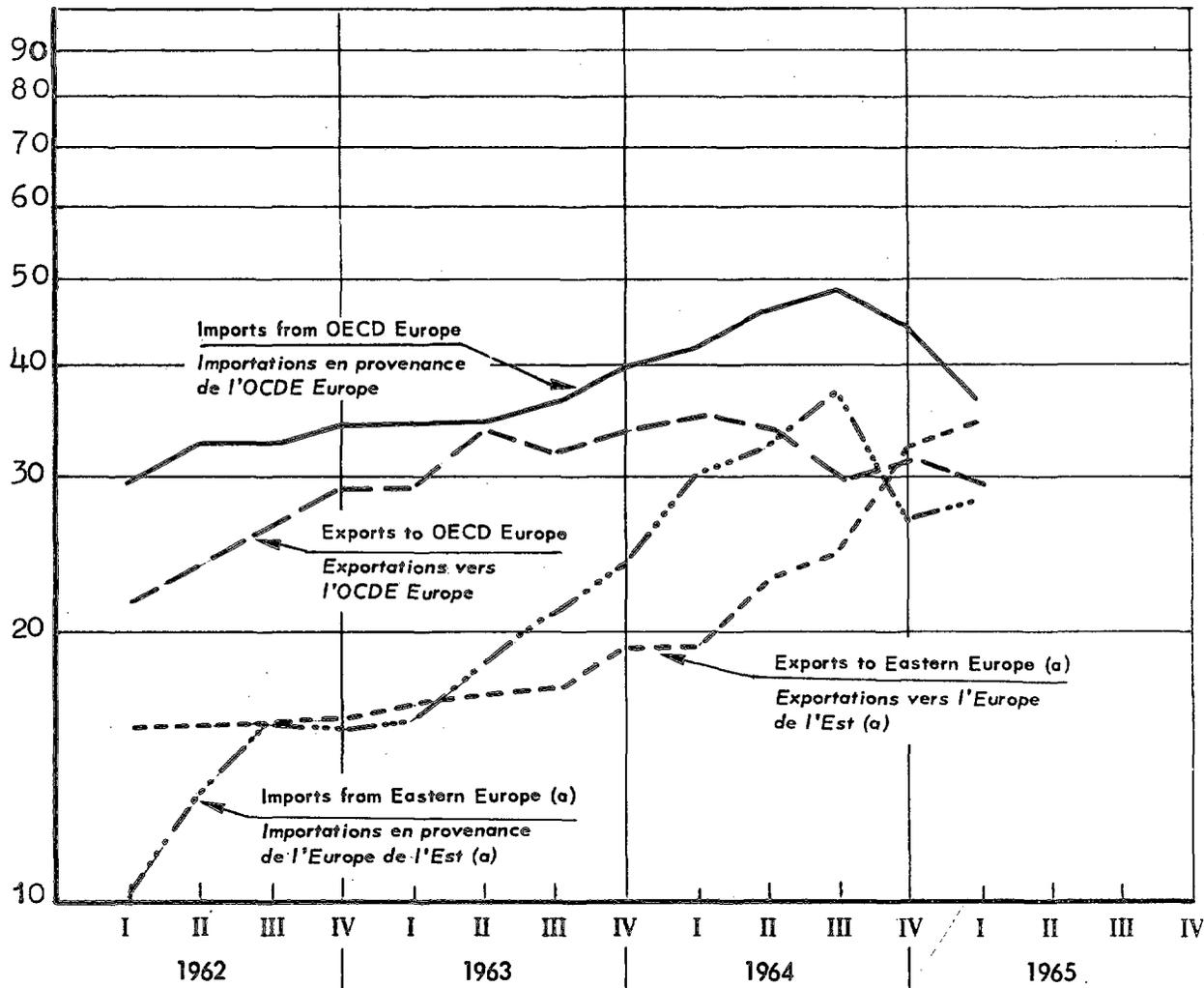
| | | IMPORTS | | EXPORTS | |
|------|-------|----------------------|----------------|-------------------|----------------|
| | | Eastern Europe(1) | OECD Europe | Eastern Europe | OECD Europe |
| 1962 | I | 15.5 | 29.6 | 9.8 | 21.5 |
| | II | 15.6 | 32.5 | 13.2 | 24.1 |
| | III | 15.4 | 32.4 | 15.7 | 26.8 |
| | IV | 15.6 | 33.9 | 15.6 | 29.0 |
| 1963 | I | 16.0 | 34.0 | 16.3 | 29.2 |
| | II | 17.7 | 33.9 | 16.9 | 33.1 |
| | III | 20.9 | 36.0 | 16.8 | 31.6 |
| | IV | 23.5 | 39.8 | 19.2 | 33.6 |
| 1964 | I | 29.8 | 41.5 | 19.2 | 34.8 |
| | II | 32.3 | 46.0 | 23.2 | 33.2 |
| | III | 36.9 | 48.2 | 24.8 | 29.2 |
| | IV | 26.8 | 43.4 | 32.4 | 31.4 |
| 1965 | I | 27.9 | 35.4 | 34.9 | 29.0 |
| | April | 37. | 40. | 35. | 30. |

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

Source: OECD foreign trade statistics, Series A.

YUGOSLAVIA'S FOREIGN TRADE
 (ADJUSTED FOR SEASONAL VARIATIONS)
 COMMERCE EXTERIEUR DE LA YOUGOSLAVIE
 (CHIFFRES CORRIGES DES VARIATIONS SAISONNIERES)

Monthly average value
 in millions of dollars
 Valeur moyenne mensuelle
 en millions de dollars



Source : OECD foreign trade statistics, Série A
 Source : Statistiques du commerce extérieur de l'OCDE, série A

(a) USSR, Albania, Czechoslovakia, Hungary, Bulgaria, Rumania, Soviet Occ. Zone of Germany, Poland.
 (a) URSS, Albanie, Tchécoslovaquie, Hongrie, Bulgarie, Roumanie, Zone d'occupation soviétique d'Allemagne, Pologne.