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# The Scope and the Relevance of the US Economic and Military Aid to SFR Yugoslavia

*Abstract*

The paper draws a sketch of bilateral relations between socialist Yugoslavia and the United States of America in 1945-1992 period. It argues that the logic of economic and military aid of the US towards Yugoslavia was the main feature of that relationship, as it followed both countries' own assessments of their respective roles and interest in a wider Cold War framework. The paper will show variations in these policies as they reflected deeper foreign policy changes, most radically in 1948 and with a number of softer turns over the given period but will also show that until the late 1980s there were core mutual understandings of benefits for both countries. These understanding subsided with the end of the Cold War in Europe as different agendas emerged on both sides. The paper uses historical method, through combination of published and unpublished archival sources from the US (what is digitally available) and Belgrade (Archive of Yugoslavia and Diplomatic Archive of the Ministry of Foreign Affairs) and relevant literature of both Serbian/Yugoslav and US provenance.

*Keywords:*

Yugoslavia, United States of America, Cold War, economy, military, foreign aid.

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## INTRODUCTION

The end of the World War II brought to Yugoslavia a position of a country in broad victorious coalition, with a government dominated by the Communist Party of Yugoslavia under the leadership of Josip Broz Tito, as it was the leading force of the liberation movement(s) during the war. Its immediate tasks were to repair as much of the war damage as possible and to perform a communist makeover of the social and state order. The United States came out of the war without any damage to its own soil, civilian life, and economy (bar the Pearl Harbor attacks) and were undoubtedly the world's foremost economic power. Its focus was on the fate of the occupied Germany, organizing European economic and security architecture, and wielding its considerable influence to shape global processes.

Yugoslavia was one of the founding members of the United Nations, whose relief agency, United Nations Relief and Rehabilitation Administration (UNRRA), was the major foreign aid donor to many countries, including Yugoslavia. UNRRA's major funder were the United States. Crop shortages in 1945 and the drought in 1946 were overcome through the UNRRA food aid, while the donated makeshift hospitals and pharmaceuticals helped to ease the early crises in public health in the wake of the war. Total UNRRA aid value until the early 1947 was some 415 million dollars, almost three quarters of which was supplied by the USA.[1]

The two countries soon came at the loggerheads over a range of issues. The new communist government wanted to make a revolutionary discontinuity with the former Kingdom of Yugoslavia in international relations by claiming no sovereign financial obligations for the period up to 1941 but had relented under US pressure in early 1946, after it received the formal recognition from Washington. In May 1945 Yugoslav troops had entered Trieste, some time before the British troops did, thus opening the "Trieste issue" with Italy for the next decade. In August 1946 on two separate occasions the Yugoslav anti-air defence shot down two US military transport airplanes on route from Italy to Austria, with casualties in one of the shootings. With neighbouring communist governments in Bulgaria and Albania Yugoslavia had supported the Greek communists' efforts in the Greek civil war (March 1946 – October 1949). The degree to which the US President Harry Truman saw Yugoslavia with utter distrust and attributed it with power and agency is perhaps best described in a September 1947 letter to his wife: "[...] But here is a situation fraught with terrible consequences. Suppose, for instance, that Italy should fold up and that Tito then would march into the Po Valley. All the Mediterranean coast of France then is open to Russian occupation and the iron curtain comes

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1 Branko Petranović, *Istorija Jugoslavije*, Vol. III, Nolit, Beograd, 1988, pp. 80–82.

to Bordeaux, Calais, Antwerp, and The Hague. We withdraw from Greece and Turkey and prepare for war. It just must not happen.".[2]

Through 1947 the USA got increasingly involved in post-war stabilization of Western/capitalist Europe. Early in the year, the United Kingdom officials informed Washington that they could not maintain the security umbrella over Greece and Turkey, which was a call for the USA to step in. Regional issues aside, economic picture in Western Europe was far from stable, and the US diplomacy increasingly worried that this was conducive to communist efforts to win over large popular support and topple the established governments. "Containing" the reach of Soviet communists was now an imperative drive of US policy in Europe. Washington crafted the European Recovery Plan – the so-called Marshall plan – by June 1947 to streamline economic aid to partner European countries and to help them to ease the flow of capital and goods across their borders. Yugoslavia refused to participate, as all other communist countries did, partly because no communist country was truly wanted by the US as a part of the program, partly as the Soviets insisted on that, and partly as the Yugoslav communists distrusted the Americans and saw this mostly as potentially subversive intrusion into domestic economic affairs.[3]

In Autumn 1947 the European communists established their first post-war international forum, the Information Bureau of the Communist and Workers' Parties, or the Cominform. In a way, it was a response to the US gathering of most of the capitalist states in Europe, to coordinate future policies of communist parties across the continent, with the early headquarters set in Belgrade, a sign of recognition of Yugoslav importance. But this setting was not to last.

## 1948 – SCRAMBLE FOR NEW POLICIES

From the early 1948 fracture points emerged in Yugoslav – Soviet relations, not visible to the wider public though, as they were tightly confined to the tops of two leaderships. Soviets were delaying trade negotiations as they were dissatisfied with Yugoslav five-year planning and the huge requests for aid that were put in front of them. They scolded the Yugoslav leadership for their talks with Bulgaria on the possible state union without consulting and seeking Moscow's approval, for flirting with similar ambitions with Albania, for further aiding Greek communists when Moscow decided to end its support in

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2 Elizabeth Edwards Spalding, *The First Cold Warrior: Harry Truman, Containment, and the Remaking of Liberal Internationalism*, The University Press of Kentucky, Lexington, 2006, p. 162.

3 Đoko Tripković, „Jugoslavija i Maršalov plan", *Istorija 20. veka*, 1–2/1990, pp. 59–76.

fear of possible US military intervention there, for being too aggressive on the Trieste issue while the Italian communists were trying to win the April 1948 parliamentary elections (which they lost). The exchange of letters between Tito and Stalin did not resolve the disputes. It was a barrage of accusations that Belgrade was pursuing overly ambitious policies beyond the perimeter of what Moscow as the "center of global communism" saw fit.

By the summer, Moscow decided to ostracize the Yugoslav communist party from the Cominform and introduce de facto economic sanctions against Yugoslavia. The expulsion was announced on 28 June through the official Cominform statements, at which moment the whole issue became public. For Yugoslavia internally, the party leadership saw this move as an existential threat to its own grip on power. It meant a start of the pressure on real or perceived pro-Soviet elements (mostly) within the party and a wave of extrajudicial arrests over next several years. It also led to ideological differentiation from the Communist Party of the Soviet Union, whose normative framework in the USSR was a clear role-model for the Yugoslav communists from 1945.[4] The Communist Party of Yugoslavia (later the League of Communists of Yugoslavia) established a form of workers self-management of the enterprises, thus devolving the formal power of decision-making for a specific firm from the federal and republic ministries, but it has retained planning competencies and most of the price controls. The policy was implemented starting in 1950 and by the early 1960s it became a staple of LCY approach to the overall economic management. The party also abolished compulsory collectivization of farming in 1952, another major difference from the CPSU norm and practice.

Externally, at first, Yugoslavia had to seek some relaxation with the Western countries. Already in June 1948 Belgrade and Washington made an agreement on releasing 60 million dollars of Yugoslav gold reserves in the USA in exchange for keeping the 17 million dollars of deposits in the USA to cover the majority of the value of nationalised property of US legal and private persons in Yugoslavia up to that point.[5] The deal was signed in mid-July, after the split with the Soviets. In early 1949 Truman relaxed the export controls for Yugoslavia in exchange for the Yugoslavs to drop the support they gave to the Greek communists. The request for the steel mill equipment

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4 Miroslav Jovanović, „Preslikana ili samobitna društvena izgradnja: komparativna analiza Ustava SFRJ (1946) i 'staljinskog' Ustava SSSR (1936)", *Tokovi istorije*, 1–2/2008, pp. 280–289.

5 Arhiv Jugoslavije (AJ), 130, 640, *Sporazum između vlada Sjedinjenih Američkih Država i FNRJ o novčanim potraživanjima SAD i njihovih državljana od 19. jula 1948.*

was soon granted and by August that year, the Exim Bank issued a 20 million dollars loan for mining equipment.[6]

Some support from the international financial institution also came forth in 1949. The chairman of the International Bank for Reconstruction and Development ("The World Bank"), Eugene Black, came to meet Tito and, while sceptical of the bank's position when issuing credit lines to communist states with poor track record, eventually agreed to a small, 3 million dollars loan in 1949. That would be followed by two loans in 1951 (28 million) and 1953 (30 million), but the bank would be a difficult partner for Yugoslavia for the next decade as it conditioned new loans with Yugoslavia reaching deals on its outstanding pre-World War II sovereign debts with a number of Western countries.[7]

The evolving US position on Yugoslavia after the Tito-Stalin split could be seen from the National Security Council's documents: its NSC 18/2 and 18/4 ("United States Policy Toward the Conflict Between the USSR and Yugoslavia") and NSC 58 ("United States Policy Toward the Soviet Satellite States in Eastern Europe), which remarked that Yugoslavia was not a Soviet satellite "because, although it is a Communist state, it is not at present subservient to the Kremlin nor an integral part of the Soviet system".[8] This perception will be fundamental to further Washington's approach in dealings with Yugoslavia for next several decades. When tight export controls against the communist bloc were enacted in 1949, Yugoslavia was not one of the targets, and for the most part it would remain so during the Cold War. The 1948 split opened a way for political and economic reproachment between the two countries, and in the immediate period led to considerable economic and military aid as Yugoslavia's security vis-à-vis the Soviets was a first-rate concern.

The "chipping away" of Yugoslavia from the Soviet bloc, and then using it as a "wedge" against that bloc became an integral part of larger containment policy against the Soviet Union. While in 1949 the NATO was formed, formalising America's standing involvement in European security affairs, Moscow mostly looked inwards, in stabilising its own international system, acquiring the atom bomb (the first test was in August 1949) and global communism got the boost as the Communist Party of China took over the

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6 Ljubiša S. Adamović, Džon R. Lempi i Rasel O. Priket, *Američko-jugoslovenski ekonomski odnosi posle Drugog svetskog rata*, Radnička štampa, Beograd, 1990, p, 35.

7 Devesh Kapur, John Lewis and Richard Webb, *The World Bank: Its First Half Century, Vol. 1 History*, The Brookings Institution, Washington, 1997, p. 103.

8 Foreign Relations of the United States, 1949, Vol. 5, Eastern Europe*; The Soviet Union, Report to the President by the National Security Council*, Washington, December 8, 1949, pp. 42–54.

mainland China territory and proclaimed the People's Republic in October. Yugoslavia's position was thus one piece of a larger, global puzzle.

## 1950s – HEYDAY OF ECONOMIC AND MILITARY AID

While the normalisation of economic relations between Yugoslavia and USA slowly picked up steam, the events across the globe effectively sparked the topic of military aid. The army of communist North Korea, a state formed over a Soviet-held part of Korean Peninsula, attacked the South Korea (under the US control) on 25 June 1950, which prompted Washington not only to engage in a direct war with one communist country, North Korea, which was aided by China, and to a lesser degree by the Soviet Union, but to reassess other possible hotspots of seeming Soviet-sponsored aggression. And in that sense Yugoslavia was an obvious choice.[9] It was a communist country so any meaningful help from the West would be hard to come; the full authority of the CPY over the society was in doubt; it was economically squeezed by the collapse of trade with the communist bloc and the standard of living was, by the US assessment in the second half of 1950, lower than at the pre-World War Two level.[10] Thus, US concerns over possible Soviet attack on Yugoslavia were growing right after the start of the war in Korea. On a mission delegated by the State Department, John Foster Dulles had a long talk with Yugoslavia's ambassador to the UN, Aleš Bebler, in July, on wider prospects of Soviet's possible attacks in Europe and Yugoslavia's position on the matter. Dulles elaborated how the Washington thought that the Soviets would go for military action on their wider periphery, while Bebler stated that Yugoslavia was more in danger than the Greece was, and that the shortage of ammunition and aircraft was of a particular concern for the defence.[11]

The following months proved to be crucial in establishing the military and economic aid policies of the USA in global, and for Yugoslavia in particular. Yugoslav deputy foreign minister Vladimir Velebit went to visit the US to seek the IBRD aid, but has also ventured into meetings with State Department, CIA and Department of Defence officials to discuss military aid. He had no

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9 Coleman Mehta, "The CIA Confronts the Tito-Stalin Split, 1948–1951", *Journal of Cold War Studies*, Vol. 13, Issue 1, 2011, pp. 101–145.

10 Thomas Fingar (Ed.), *Yugoslavia From 'National Communism' to National Collapse: US Intelligence Community Estimative Products on Yugoslavia, 1948–1990*, Central Intelligence Agency and National Intelligence Council, Washington, 2006, pp. 59–60.

11 AJ, 507, IX, 109/VI-184, *Pismo Aleša Beblera Edvardu Kardelju*, 14. 7. 1950.

formal authority to do so and he returned to Belgrade to brief Tito and other relevant state officials. In early December he got the clearance to seek military aid on his return trip to America. At the time he only got promises for surplus artillery ammunition, as the Washington was preparing the legal framework that would become the Mutual Security Act (MSA) in 1951. Washington also wanted formal agreements and staff to staff meetings between the military officials to understand the needs and determine its possibilities in sending weaponry and supplies.[12]

In May and June 1951 Yugoslav chief of the General Staff, Konstantin Koča Popović, visited the United States and held detailed talks in the Pentagon, including with Chairman of the Joint Chiefs of Staff, George Marshall. The first agreement was signed on June 13 and Yugoslavia was to receive military equipment worth some 30 million dollars in the first batch although Belgrade was asking for some 80 million dollars' worth. Belgrade was also keen on keeping out of the formal aid programs as it feared possible political repercussions for aligning with the US and wanted to reduce any US military involvement on the Yugoslav soil. Nevertheless, Yugoslavia joined the MSA program in 1951, and the American Mission Assistance Staff mission of some 30 officers initially came to Yugoslavia by the end of the year.[13] Jet aviation – F-86 fighters, F-84 fighter bombers and T-33 trainers, helicopters (S-55), modern armour (M47 Patton tank) and artillery (M114 howitzers) dragged the Yugoslav army in the 1950s out of the World War II technological level.

In parallel, the USA, the UK, and France had established the so-called tri-party aid program for Yugoslavia (where the USA will provide for 2/3 of the value). For 1951/52 that aid amounted to 120 million dollars. By the end of 1955 when the program was closed, just over 600 million dollars of aid, mostly food, was implemented through this format.

In January 1952 Yugoslavia and the USA signed a trade agreement that had established the counterpart funding for Yugoslavia. In essence, Yugoslavia would receive goods of agreed value from the USA and the proceeds from its sales in Yugoslavia would be accumulated in dinars in special accounts, so the Yugoslav side would keep 90% of the dinars and the US (through its embassy) would keep 10%. These accounts would be used to fund development projects agreed by both sides, and they would essentially run for decades. In 1952 severe drought has hit Yugoslavia, with agriculture falling short of the 1951 output at only 57%. Yugoslavia asked for additional aid, which was granted to

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12 Ivan Laković, *Zapadna vojna pomoć Jugoslaviji, 1951–1958*, Istorijski institut Crne Gore, Podgorica, 2006, pp. 35–36, 207.

13 Aleksandar Životić, „Vašingtonski pregovori (maj – jun 1951) – prelomna tačka jugoslovensko-američkih odnosa?", *Tokovi istorije*, 2/2015, pp. 165–177.

the tune of 20 million dollar, plus the said IBRD credit of 30 million dollars for purchasing agricultural mechanisation was granted in 1953.[14]

In 1952-1954 Yugoslavia held high-level talks with the US on the common strategic view on the situation in the Balkans, scope and limits of joint military planning and the best use of military hardware that started flowing into Yugoslavia. Tito was fairly clear that he was not interested in joining NATO, and in talks with the US military he never agreed to formal commitment to adjust military planning in such a way to prioritise defending the "Ljubljana gate", or the shortest route for Soviet army from Hungary to northern Italy. He jockeyed through various forms of Western military initiatives and formal deals, in order to show some closeness to the concepts of defence against the Soviet Union and to get the best possible deal on Trieste where the armed standoff with Italy was in place since October 1953.[15] The pinnacle of that dynamics was the (new) Balkan Pact on mutual defence with Greece and Turkey in 1954. Since these two countries became NATO members just two years prior, formal arrangements were made to distance their NATO commitments (through Art. 5 of the NATO Treaty) from their commitment to Yugoslavia's defence.

The 1954-55 period was the one of fast developing and intertwined processes. Besides the Balkan Pact, in the summer of 1954 Tito made interim deal with Italy on the Trieste issue and had started correspondence with the new Soviet leadership (Stalin had died in March 1953). Thus, his attention now turned to the East in order to normalize relations with the Eastern bloc on the grounds favourable for Belgrade. When Nikita Khrushchev and the Soviet delegation visited Belgrade in May 1955, they came with a soft *mea culpa* message, and signed a Belgrade Declaration on mutual relations that very much pleased Yugoslav officials. It marked the formal end of the critically hostile relations but did not mean the return to the pre-1948 state of affairs. The future relationship will fluctuate but will be managed and kept in check.

In 1954 the US established a so-called Food for Peace program, or the Public Law 480. The program allowed the US government to purchase domestic agricultural surplus and to offer it, on very favourable terms, to foreign governments. The allocated surpluses would be paid for either in dollars or local currency, and the sum would be treated similarly as a counterpart fund – for local development projects in agreement with the US government.[16] The

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14 Momčilo Pavlović, „Pomoć Jugoslaviji u hrani od strane zapadnih zemalja, 1950-1951", *Istorija 20. veka*, Vol. 12, No. 2, 1994, pp. 119–138.

15 Milan Igrutinović, „Život i smrt Evropske odbrambene zajednice – pogled iz Beograda", *Vojno-istorijski glasnik*, 2011, No. 2, pp. 101–124.

16 George M. Guess, *The Politics od United States Foreign Aid*, Routledge, London and New York, 2011, p. 15.

details of specific aid for each country were negotiated on a year-to-year basis, which was not optimal from the Yugoslav point of view as it had to constantly navigate State Department, White House and the Congress interests to reach the best possible deals. In terms of sheer volume and the way the money was used, the PL480 was a largest program of aid from the USA to Yugoslavia over the next decade and a half, while Yugoslavia was a formal party to the program. Over 8.8 million tons of wheat and some 930 million dollars of total aid came through this program to Yugoslavia by the end of the 1960s.[17]

In September 1954, Robert Murphy, Deputy Under Secretary for Political Affairs of the State Department visited Tito to finalize the deal on Trieste and to determine the scope of the food aid under the PL480 program. He brought with him the letter from President Eisenhower in which he made a friendly plea to Tito to "personally intervene" to make a final gesture on the border issue with Italy, while stating that he had instructed Murphy to "take a sympathetic look at any economic predicaments" that Yugoslavs relay to him.[18] Tito played ball and the deal with Italians was finalised in October. Still, the Yugoslav delegation had a hard time negotiating on food aid in Washington in November, but the deal was made on 425,000 tons of wheat, 10 million dollars' worth of cotton and the use of counterpart funds on the Adriatic motorway, a program that had both military and commercial importance.[19] Yugoslavs were gloomier about the whole affair. They found it difficult to negotiate on numbers and projects they saw as priority, and they thought that after the Trieste deal was made the Washington would be more forthcoming.[20]

Tito also took the time, at the end of 1954, for a long trip across oceans, to Burma and India. A voyage of several months, easily his longest absence from Yugoslavia to date, was a sign of improved security and a wish not the feel being squeezed between two blocs in Europe while playing only a defensive role. It was a steppingstone for global approach to Yugoslav's international position by developing the policy of non-alignment over the next several years.

By the logic of bloc relations, the thaw with Soviets inevitably meant the cooling off the relations with the United States. James Riddleberger, the US ambassador (1953-58) made complaints in early 1955 that Yugoslavia

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17 Diplomatski arhiv Ministarstva spoljnih poslova (DA MSP), PA, 1966, 178, 43046, *Problemi u vezi s uvozom poljoprivrednih viškova iz SAD*, 31. 1. 1966.

18 AJ, 837, I-1/1083.

19 Foreign Relations of United States (FRUS), 1952–1954, Vol. VIII, *No. 715, The Secretary of State to the Embassy in Yugoslavia*, Washington, November 18, 1954, pp. 1423–1424.

20 DA MSP, PA, 1955, 60, 14, 18223, *Ekonomska pomoć triju vlada*, 17. 6. 1955.

was not forthcoming about the use of military aid, its defence planning, and was hampering the AMAS mission. Yugoslav diplomats were adamant that Yugoslavia would not cooperate on military planning and that it was providing enough information already on the use of military equipment. Belgrade was willingly and slowly letting go of the MSA program (but was eager to squeeze out of it as much as it still could) and was shifting its interest towards the long-term economic aid (ie long-term and favourable credit lines).[21] By late summer, the US military fully understood that the end of the line for tying Yugoslavia to Western military structures was reached and it saw no point in continuing the rhythm of sending military aid, which would only trickle for the next two years.[22]

USA wanted to make sense of the Yugoslav-Soviet reproachment directly, so Murphy came for another visit in September 1955. Tito assured him that the reproachment should not be considered as directed against the US and US-Yugoslav ties, that it was too early to say that the relations with other communist countries were also improving, and that Yugoslavia was firm on its declared position that it would not join Soviet-led bloc.[23] That was reassuring enough for Murphy, so he arranged for the John Foster Dulles (as a Secretary of State) visit to Tito and went on to discuss the new annual economic aid package for Yugoslavia and the state of MSA program with Belgrade interlocutors. Murphy got satisfactory answers from Secretary of Defence Ivan Gošnjak to unclog some lesser amounts of military aid and got a clearer sense of direction of Yugoslavia at that sensitive moment. Tito vas visited by Dulles on November 6, and they talked about topics of wider international situation in Europe. His takeaway was like Murphy's, that Tito had no plans to return to the Soviet fold.[24] Shortly after, the US approved the release of 300,000 tons of wheat and by January 1956 the total aid under PL480 for fiscal 1955/56 was agreed at the level of just over 101 million dollars.[25]

The interest of both sides for the existing form of MSA military aid was waning rapidly in 1955-57. Relaxation of the relations with USSR made Yugoslavia more secure and thus long-term military and economic planning

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21 Dragan Bogetić, *Jugoslavija i Zapad 1952–1955: jugoslovensko približavanje NATO-u*, Službeni list SRJ, Beograd, 2000, pp. 213–223.

22 Lorejn M. Lis, *Održavanje Tita na površini: Sjedinjene Države, Jugoslavija i Hladni rat*, BMG, Beograd, 2003, p. 168.

23 FRUS, 1955-1957, Vol. XXVI, *No. 258, Telegram from the Embassy in Yugoslavia to the Department of State*, Belgrade, September 27, 1955, pp. 672–674.

24 FRUS, 1955-1957, Vol. XXVI, *No. 264. Message From the Secretary of State to the President, at Denver,* Washington, November 7, 1955, p. 698.

25 DA MSP, PA, 1956, 83, 8, 424128, *Ekonomski odnosi sa SAD*, 17. 2. 1956.

became more important than filling some current gaps in the military hardware. Also, a pushback on the oversight of AMAS mission over the use of US weapons in Yugoslav army was widespread by that time, and the logic of tighter security of armed forces (in this sense – against the US inspections and queries) took precedence over prospects of receiving surplus weaponry after ever more longer and difficult negotiating process. Furthermore, visible courtship from the Soviet Union military towards the Yugoslav military and embassy in Moscow in 1956–57 opened the prospects of getting new Soviet hardware (jets, helicopters and anti-aircraft missiles) on favourable terms.[26] Yugoslav Foreign Minister Konstantin Koča Popović and the US ambassador Riddleberger held several talks on the MSA issue. In December 1956 Popović was pretty clear that Yugoslavs felt increasingly secure and held the position that there was no immediate threat of war in Europe, that they would like to focus on security of supply (implying that the MSA aid was not good enough in changed international circumstances when the limits of alignment with the US have been reached), and that with the US manufacturers there were always issues with high prices and difficult licencing even for spare parts. He emphasized that the best option for all was to exit the MSA program and concentrate on long-term economic relations "which was the best way to solve our security needs anyway".[27] In December 1957 Yugoslavia officially ended its participation in the MSA program. This move came two months after Yugoslavia issued a recognition of independence and sovereignty of German Democratic Republic, which once again raised eyebrows in Washington to the question how closely Yugoslavia is following the Soviet foreign policy footsteps. Eventually, from the early 1960s, Yugoslavs will switch to the USSR as the main source of modern weaponry. For Soviets, luring Yugoslavia as close as it was possible was a part of consolidation of communist bloc, as in 1955 they formed the Warsaw treaty military bloc in the wake of failed negotiations with the US on the fate of Germany, when Western Germany was incorporated into NATO and its army was slowly being built from scratch.

To strengthen the ties with the US administration and to explain Yugoslav economic interests, a large delegation of Yugoslav officials led by Avdo Humo, Federal Minister for Finance, had visited the United States in October 1957, a largest such visit to a Western country since 1945. They met Dulles, C. Douglas Dillon (Under Secretary of State for Economic Affairs), Eugene Black of the IBRD and Per Jacobson of the IMF. In talks with Dulles and Dillon, Humo explained main lines of Yugoslav economic development, highlighting the fast rates of growth (in 1950s they were among the highest in the world) but

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26 Aleksandar Životić, „Uspon i pad jugoslovensko-sovjetskih vojnih odnosa 1957", *Tokovi istorije*, 1/2014, pp. 105–134.

27 AJ, 837, I-5-b/104-4, Str. pov. 328, *Beleška o razgovoru*, 24. 12. 1956.

also continuous issues with balance of payments, poor agricultural output, and price disparities (a fairly common issue with non-market economies). He asserted a wish for long-term credit lines on which Yugoslav industry should rely on and made a point that the regime of economic aid through food and other programs was good because it was necessary, but that Yugoslavia wanted a way out through its economic development, for which it needed cheap industrial credits and technology import. He was also trying to find partners for the development of electric grid and Majdanpek copper mine and smelter, an expensive project on which the US interlocutors were fairly cool, citing low global prices of copper. Humo was also trying to get across the message that Yugoslavia was not fundamentally aligning with the Soviet Union, that it has its own red lines and that it seeks only friendly and productive relations, not a place in the Soviet's bloc. Dillon was clear that Washington had a positive overall view of Yugoslav needs but that it certainly could not cover all of them, explaining the perennial issues with Congressional approval of annual aid and cost-benefit analysis of each and every project that Yugoslavia and many other countries wanted to finance through ongoing US programs. Dillon brought the question of Yugoslav pre-war debt, on which there were ongoing talks between Yugoslavia and a number of foreign countries (USA, France, Switzerland etc) and urged Yugoslavia to settle the debts so it could raise its commercial appeal to US private lending as well. Dillon was also explaining the coming changes in aid policy and establishing new modes that would be beneficial to Yugoslav expectations of long-term funding.[28]

In 1958 the USA established a Development Loan Fund, to supplement the MSA and PL480 and in close connection with the Exim Bank and the IBRD, with tailored credit facilities. Eligibility criteria required countries to be outside the global communist domination, to be undeveloped, to respect terms of export controls of the US goods it uses, and to submit for financing feasible project that would help its development.[29] In March 1958 Yugoslavia submitted its list of proposed projects worth 130 million dollars. However, new problems with the USSR on ideological grounds led to Soviet backing off from previously announced credit lines so Belgrade created an updated list for DLF by July, of some 200 million dollars. Priority projects were Azotara Pančevo (nitro fertilizer plant), Thermal Plant Kosovo, Hydro Plant Trebišnjica, fertilizer plants in Lukavac and Sisak, diesel locomotives and a cellulose factory.[30] Thermal and hydro plant got the early provisional

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28 DA MSP, PA, 1957, 92, 10, 28396, *Rad delegacije A. Huma*, 8. 10. 1957.

29 DA MSP, PA, 1957, 92, 12, 426883, *Organizacija i poslovanje Fonda za ekonomski razvoj*, 6. 12. 1957.

30 DA MSP, PA, 1958, 108, 21, 31694, *Podsetnik za razgovor druga Kardelja sa ambasadorom SAD K. Renkinom*, 15. 7. 1958.

approval for financing, and by 1961 the DLF allocated 117 million dollars for Yugoslav needs,[31] and in that year the DLF was incorporated into the newly formed USAID.

## PURSUING REFORMS AT HOME AND NONALIGNMENT ABROAD

During 1960 Yugoslav officials were preparing a major economic reform in the sector of monetary policy and foreign trade. Some international preparation was done through an associate membership in Global Agreement on Tariffs and Trade (GATT, the predecessor of the World Trade Organization) in 1959 and already in 1956 Yugoslavia got an observer status in Organization for European Economic Cooperation (OEEC, a predecessor of the OECD). In 1958-59 it concluded several agreements on servicing its pre-war and early post-war sovereign debt and thus has opened the door to IBRD financing and has gained some reputation in international private finance circles. In the context of Cold War, it has to be noted that a communist country was putting so much energy into being a part of the global capitalist mainstream.

The reform was rolled out in January 1961. Its goals were to end the decade-long policy of multiple foreign currency exchange rates, to devalue the dinar (from 300 to 750 dinars for 1 dollar), to abolish rigid state-approved export and import quotas, deregulate the imports, create a policy of export subsidies, all with hopes of expanding the foreign trade overall and easing the disparities of domestic and foreign prices of goods, with the long-term aim of reaching dinar international convertibility. Important part of the approach to the reform was to gather as much international support as possible. Dillon came to visit Yugoslavia in mid-July and toured the ongoing projects financed by the United States (such as fertilizer plant in Pančevo by the DLF). His Yugoslav interlocutors told him that they were seeking 340 million dollars of short- and mid-term loans to enter the reform from the USA (150 million was requested), Western European countries, the IMF and the EBRD. Federal secretary of economy, Mijalko Todorović, was claiming that after the successful rollout of the reform the Yugoslav exports to the USA would triple by 1965 and that in that year Yugoslav standard of living would be equal to the current Italian (1960).[32] Those words and numbers had no grounds in reality but Yugoslavs were looking to make an impression. Dillon met Tito as well, but they mostly discussed global issues, where Dillon talked about US

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31 DA MSP, PA, 1961, 127, 439308, *Ekonomski odnosi sa SAD*, 27. 2. 1961.

32 FRUS, 1958-1960, Vol. X, Part II, *No. 163, Memorandum of Conversation*, Belgrade, July 18, 1960, pp. 437–444.

policies towards Cuba and Tito gave his views on several crisis points of the day (Algeria, Congo, China...).[33]

This reform was well-received in Washington, as they saw it as a pro-market reform that will tie Yugoslavia more tightly to the Western camp. By the end of 1960 the USA pledged 100 million dollars (25 from the MSA program, 25 from the DLF and 50 million from the Exim Bank). The IMF provided a loan of 75 million dollars for foreign exchange reform and IBRD issued a loan of 30 million for energy sector development.[34] Yugoslavia gathered some 270 million dollars in aid from Western countries and organizations, so, not all what it wanted but still nearly 10% of its GDP at the time.

In September 1960 Tito went to the UN General Assembly session, and his trip to New York was highlighted with the meeting with Dwight Eisenhower in Waldorf Astoria Hotel, where both stayed during the UN GA session. It was the first ever meeting between presidents of two countries. Their conversation was light in content and courteous. They both gave their views on current issues in their own countries, with focus on economy (Tito on rapid but uneven growth, Eisenhower on military spending) and just quick notes on the meetings they had with foreign leaders. Eisenhower relayed that 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" as "there was no neutrality in moral questions of right or wrong."[35] This was a mainstream view of Yugoslav endeavours on non-aligned foreign policy in the early 1960s – a combination of suspicion and benevolence. This UN GA meeting served Yugoslavia to strengthen its non-aligned approach, by organizing a meeting between leaders interested in pursuing principles of non-aligning with bloc logic and politics and of principles of peaceful coexistence. On September 29 in Yugoslav Mission to the UN, Tito met with J. Nehru (Prime Minister of India), G. A. Nasser (President of Egypt), K. Nkrumah (President of Ghana) and Sukarno (President of Indonesia). They showed mutual support in their statements for the rest of the UN GA meetings, and paved a way for future meetings that would be formalised next year with the First non-aligned conference in Belgrade.

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33 FRUS, 1958–1960, Vol. X, Part II, *No. 164, Memorandum of Conversation*, Vanga, July 19, 1960, pp. 444–447; *No. 165, Memorandum of Conversation*, Vanga, July 19, 1960, p. 448; *No. 166, Memorandum of Conversation*, Vanga, July 19, 1960, pp. 449–451; *No. 167, Memorandum of Conversation*, Vanga, July 19, 1960, pp. 452–453; *No. 168, Memorandum of Conversation*, Vanga, July 19, 1960, pp. 453–454.

34 AJ, 112, 1166, 2/1, *Saopštenje Stejt departmenta i MMF o zajmovima odobrenim Jugoslaviji*, 3. 1. 1961.

35 FRUS, 1958-1960, Vol. X, Part II, *No. 170, Memorandum of Conversation*, New York, September 22, 1960, pp. 455–461.

As Yugoslavia was gearing up for its biggest global role in hosting the foundational conference of the emerging Non-aligned Movement, it threaded carefully between the USA and USSR, but in effect it got closer to the USSR, despite somewhat tense relations of two ruling communist parties. In August 1961 the Berlin wall crisis was at its height and Yugoslavia was cautious not to blame the Soviets publicly, and in talks with new US ambassador, one George F. Kennan, and Chester Bowles (Under Secretary of State) Tito urged the US to be "more constructive" in dealing with the Soviets.[36] Prior to the Non-aligned conference (1–6 September), Soviets conducted a nuclear test which Tito failed to condemn, instead firing off tirades against the USA and global capitalism. This sent a bit of a shockwave to Washington, as the State Department expected a more neutral tone, banking on the assurances of Yugoslav officials over the previous months.[37]

The new, Democratic administration under John F. Kennedy was generally continuing a soft approach towards Yugoslavia inherited from Republicans. But it felt it had to stop and reappraise such a policy. Kennedy issued a internal ban on aid to Yugoslavia in late September but it lasted only for several weeks.[38] By January 1962 the overall policy of extending the economic aid was continued in a reduced format. For example, wheat sent through PL480 was to be nominally paid for only in dollars; IMF and IBRD would drag their feet on disbursing allocated funds for Yugoslavia; Exim Bank credits were capped at 10 million dollars for the moment, and the US Government allocated 10 million dollars of direct aid, less than expected.[39] But there was additional damage. The Congress stopped the process of training of Yugoslav military pilots on US soil and banned the commercial sale of surplus jets, of the types that Yugoslavia already had in an inventory from the 1950s.[40] Secretary of State Dean Rusk elaborated in Congress in early February 1962 the restrictive measures in place against Soviet Union and Cuba and in that light of perceived Yugoslav closeness to USSR he had to defend the policy of aid towards Yugoslavia. He described the bilateral relationship as "friendly and honest" and painted it in terms receptive to Congress: that Yugoslavia mostly complied with US sanctions against the reexport of military and dual use goods, that it was not a part of communist global conquest, that its foreign

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36 Đoko Tripković, *Jugoslavija i SSSR 1956–1971*, Institut za savremenu istoriju, Beograd, 2013, pp. 112–117.

37 DA MSP, PA, 1961, 124, 39960, *Beogradska konferencija i odnosi Jugoslavija – SAD*, 16. 9. 1961.

38 FRUS, 1961-1963, Vol. XVI, *No. 103, Editorial Note*, p. 217.

39 DA MSP, PA, 1962, 120, 41033, *Razgovor Marka Nikezića i Dina Raska*, 9. 1. 1962.

40 Ljubiša S. Adamović, Džon R. Lempi i Rasel O. Priket, op. cit., p. 63.

trade is predominantly tied to the West and that it would be "sterile and defensive" to treat it as just another country of the Soviet bloc.[41] On the other hand, the Yugoslavs did not appreciate being painted as just serving the US interests, although they did understand the politics in Washington and the relationship between the administration and Congress.[42] By June, the various amendments in the House of Representatives coalesced around Wilbur Mills' (D-Ar) proposal to remove the Most Favourable Nation status for Yugoslavia (and Poland, which was granted that status only in 1960). The amendment found its way into the final form of the Trade Expansion Act of 1962. The room for manoeuvre for Kennedy's administration that lobbied against Congressional restriction in this matter was that the formal application of such measure, that would introduce a number of high customs for Yugoslav exports to the US and reduce overall economic relations, was delayed for one year. With strong Yugoslav protests over the summer and autumn, and an offensive in explaining to Washington that the improvement of Yugoslav-Soviet relations was not a zero-sum game against the US, Kennedy included this issue into his legislative agenda for 1963.

Kennedy invited Tito to visit the US during Tito's previously planned tour in Latin America in October 1963, and it was extended shortly before this trip. The invitation was partly a logical step for better bilateral understanding in time of growing suspicions and the "hits" that Yugoslavia took in Washington but was also partly a wish to be cooperative while Tito was giving speeches in UN GA session and during his Latin American meetings.[43] Tito met Kennedy in the White House on 17 October for several round of talks. Bilateral relations were centred on two key issues: the boundaries of dynamic Yugoslav-Soviet relations and views on Soviet foreign policy towards the West. Tito was arguing that Yugoslavia was seeking to expand its overall foreign policy connections in beneficial ways and that closer ties with the Soviet Union were part of that, but that that should not be interpreted as spoiling the relationship with the US. He made a point that most of the Yugoslav trade was oriented towards the West and that Yugoslavia did not want any confrontation. He was boasting that he made Khruschev state publicly that the Soviet Union was supporting the principles of peaceful coexistence. Kennedy reminded him of the Cuban missile crisis the year before and that such Soviet words were not followed by their actions. But in essence he was not displeased with Tito's explanation

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41 Congressional Digest, 1962, *Department of State Bulletin*, February 26, 1962, pp. 346-348.

42 FRUS, 1961–1963, Vol. XVI, *No. 120, Telegram From the Embassy in Yugoslavia to the Department of State*, Belgrade, February 14, 1962, pp. 257–258.

43 Dragan Bogetić, *Jugoslovensko-američki odnosi 1961–1971*, Institut za savremenu istoriju, Beograd, 2012, p. 143.

about Yugoslav global outlooks and of placement of its own foreign policy. On the issue of economic relations, Tito was clear that Yugoslavia was ready to stop receiving classic economic aid, and that it was interested in commercial cooperation based on mutual economic interest. He painted the aid policy as an obstacle for more productive relations overall. All this suited Kennedy. The wind down of aid programs meant one less hassle in relations with Congress, at least, and allowed for new and positive trend in relations.[44] As we know, Kennedy was shot one month later in Dallas. His legislative agenda regarding the return of MFN status for Yugoslavia was voted on in December, when the status was restored through the amendments to the Trade Expansion Act.

The 1965 economic reform in Yugoslavia was meant to deal with the slowdown of economic growth since the end of the 1950s, to strengthen the principles of self-management in enterprises and to give them more autonomy, and to further devolve power from the federal level. For League of Communists of Yugoslavia, it was an essential exercise in ideological maturity and holding the reins of power, internally and as an element of legitimacy towards international actors, possibly most of all within the context of constant ideological tension with the CPSU. Economically, it had its early contradictions: as a way of combating price distortions and as an element of stability during the major economic reform, most of the prices of industrial goods (up to 60% of the items) have been put under administrative control, which became a feature of the economic policy until the late 1980s, despite all the talk of more freedom to the enterprises.[45]

In July 1965 the IMF supported the reform with 80 million dollars. Yugoslavia's appeals for international aid were focused mostly on the deferment of payments for the existing loans. The USA approved two such steps, through the PL480 program (for the payment of 8.2 million, in December 1965) and the Exim Bank (for 3.5 million, in March 1966), which was considerably less than the support for the reform in 1961, and less than several other countries (USSR agreed to deferments for loans of 30 million, Italy for 45, Canada for 8.2 – just like the PL480, West Germany for 26.2 etc).[46] In October 1966, the Congress accepted limitations on the PL480 that included, among other things, the ban on dollar purchases of US agricultural products for Yugoslavia and Poland, a measure introduced by Rep. Paul Findley (R-Il), due to their ongoing trade with Cuba and North Vietnam.[47] Political

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44 Dragan Bogetić, *Jugoslovensko-američki odnosi 1961–1971*, Institut za savremenu istoriju, Beograd, 2012, pp. 144–151.

45 György Simon, Jr, *An Economic History of Socialist Yugoslavia*, Rochester, 2012, p. 91.

46 DA MSP, PA, 1966, 176, 432010, *Foreign assistance to the economic reform as of July 31*, 1966.

47 AJ, 837, I-5-b/104-14, *Stanje i perspektive ekonomskih odnosa sa SAD*, 29. 10. 1966.

divergence on these issues, where the US war in Vietnam met widespread condemnation, including in Yugoslavia with formal and vocal opposition, caught up with the aid programs and economic relations. The administration of Lyndon Johnson did not put much of a fight in Congress and Yugoslavia showed mostly token interest in the matter. It was a time to close the specific Yugoslav participation in formal aid programs and to move to "cleaner", commercial form. Future agricultural purchases would be centred on the Commodity Credit Corporation as the US Government agency, and on a free market to a lesser degree.

In the 1960s, the official Belgrade was watching the two main economic integration processes in Europe, the European Economic Community (EEC) and the Council for Mutual Economic Cooperation (CMEA). In both it saw a specific danger to its foreign trade, a "closing-in" of the bloc economies and leaving out the neutral and independent countries in unfavourable positions. Add to those the specific trade problems with the USA, the MFN issue, Yugoslav trade with Cuba that made it cross the line with many US policies, so the Yugoslav perception of growing issues with trade relations with the West became an important element of foreign policy in the early 1960s. Once we factor in the full embrace of the non-alignment as a main pillar of foreign policy, with the spread of decolonisation the Yugoslavs saw growing economic potential that was in line with their foreign policy preferences. With the thaw in ideological relations with Moscow and growing military purchases, Belgrade sought to relax the foreign trade with the CMEA. In September 1964, Yugoslavia signed an agreement of cooperation with the CMEA. It was a sui generis agreement, not of a membership or observer status, per Yugoslav wishes, and it helped make multi-year arrangements on trade in goods and specific barter arrangements.[48] In 1967 Yugoslavia passed a Law on Foreign Investments, opening up selected sectors (most of the industry and some agriculture) to foreign investment through joint ventures, for property stakes of up to 49% and the rights for a return on investment but no management rights. In 1970, Yugoslavia signed the first of many trade agreement with the EEC, also a pioneer as a communist country.

## A DECADE OF HIGH-LEVEL VISITS

The Soviet invasion of Czechoslovakia in 1968 as the expression of the so-called Brezhnev doctrine, where the intervention of communist bloc under Soviet lead was a legitimate action to protect the survival of communism in a

48 Momir N. Ninković, "Establishment of Cooperation Between the SFRY and the COMECON in 1964", *Tokovi istorije*, 3/2020, 139–163.

communist country, led to renewed question over the exposure of Yugoslavia to Soviet pressure, both within Yugoslavia and in the West. Tito preferred to deal with Soviets directly and personally and to maintain enough interest in the West to ensure additional level of security.[49]

It was also a transition period in the US with the incoming Republican administration under Richard Nixon. Washington was already slowly expanding its economic relations with the Eastern Europe, and Romania rose as a new possible "wedge" in Soviet bloc as its troops took no part in invasion of Czechoslovakia. So, when Nixon planned its Europe trip for the 1969, Romania was the first and only communist destination, not Yugoslavia. Yugoslavia was a "known known" for the US in a period when no major policy changes were expected or sought, but Romania was an interesting new prospect for the US influence. Yugoslavs were disappointed with this, as it signalled a declining US interest which would reduce the country's overall international standing.[50] The State Department eventually proposed a visit right after the Lusaka conference of the Non-aligned Movement (September 1970) where Tito was successful in helping formalising the movement and keeping the Soviet influence at bay, and Nixon gave very positive comments on the conference. Tito understood that "Lusaka brought Nixon to Yugoslavia".[51]

Nixon's welcome to Belgrade on 1 October 1970 was "relatively cordial but very dignified" as Yugoslav Secretary of Foreign Affairs Mirko Tepavac put it.[52] They exchanged views on global issues while avoiding deeper arguments over Vietnam. Regarding economic relations, Tito was looking for the expansion of trade possibilities for Yugoslavia, and Nixon agreed. He also promised that Yugoslavia would get a status of a developing country which opened up new credit possibilities, and that the US government will issue guarantees on US investments in Yugoslavia which could spur more interest in joint ventures in Yugoslavia. These would come mostly through the Overseas Private Investment Corporation (OPIC). Nixon made a short visit to Zagreb and Tito's birthplace, nearby Kumrovec, and extended a call for a return visit. Ultimately, the visit had huge symbolic value for Yugoslavia as it sent a signal of some importance in a period of Soviet assertiveness and of rising instability in the Mediterranean.

In 1971 Yugoslavia was rocked by the feud between Tito and federal center and the Croatian communist party, together with a series of mass protests in

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49 Dragan Bogetić, *Jugoslovensko-američki odnosi 1961–1971*, Institut za savremenu istoriju, Beograd, 2012, pp. 247–284.

50 Ibidem, pp. 287–290.

51 Ibidem, p. 291.

52 Ibidem, p. 292.

Croatia in support of the republic's party leadership, that was ousted by the end of the year. Constitutional reform towards further decentralisation was in full swing and the perception of internal instability was widely shared by the international audience. Soviet overt and covert signals that Yugoslavia was under threat from imperialist powers and internal counter-revolution which all might lead to the need of communist – that is, Soviet – intervention, were received from many quarters.[53]

Tito went to official state visit to the USA on 27 October 1971, and was received at the White House with full military honours the next day. He and Nixon discussed global developments since their last meeting, sharing insights on Soviet foreign policy. Tito relayed Brezhnev's message, which he gave to Tito during their meeting in Belgrade in September, that "the USSR wishes for best possible relations with the USA". In light of his forthcoming visit to the USSR, Nixon assured Tito that the US-Soviet relations would not develop over the back of any small country. Bilateral relations were mostly discussed by Tepavac and Secretary of State William Rogers.[54] But the most relevant part of discussions during this visit came through Tepavac's dinner-time and secret verbal notes to both Rogers and Nixon that the September meeting with Brezhnev "did not went well" and that "President Tito is a very old man and when he dies, when he goes, I mean when he retires, then we may be confronted with the attempts of some of our neighbors to capitalize on that". Rogers and Nixon discussed it later and they saw that Yugoslavs were "scared to death" of Soviets but were officially putting a brave face.[55] The visit resulted in the Washington Declaration, a communique in which the US expressed "interest for independent and non-aligned position and policy of Yugoslavia", with a number of references to sovereignty, respect for interests, full support to the state rights under the UN Charter etc. Two presidents also agreed to increased level of mutual communication in order to avoid volatility in bilateral relations and to increase the top-level consultation of standing international issues.[56]

For Yugoslavia, the end of the 1960s and the beginning of 1970s were marked by the high growth of material product (some 8% per annum in 1969-71) with the slow emergence of high inflationary pressure. The industrial production was rising some 10% per annum but the agriculture had high

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53 Ibidem, pp. 308–320.

54 Ibidem, pp. 324–328.

55 FRUS, 1969-1976, Vol. XXIX, Eastern Europe; Eastern Mediterranean, 1969–1972, *No. 233. Editorial Note*, pp. 586–589.

56 Dragan Bogetić, *Jugoslovensko-američki odnosi 1961–1971*, Institut za savremenu istoriju, Beograd, 2012, p. 334.

volatility (explained mostly by the weather patterns) as it fell by 5% in 1970 and rose by 9% in 1971. From the second half of the 1970 more restrictive monetary policy was in place, coupled with the stand-by arrangements with the IMF on short-term and long-term debt policy and the devaluation of dinar in January 1971 by 16.4% and by further 19% in December.[57]

The first oil shock in 1973 hit Yugoslavia as well but due to the ability to import oil under favourable terms from friendly countries at the time (Libya e.g.) the government did not venture into any meaningful structural reforms of the economy.[58] Anti-inflation program was introduced at the beginning of 1974 by tightening the dinar supply, a systemic start of the struggle that will be essentially futile until the end of the SFRY existence. Also, Yugoslavia had to change its own monetary policy in lieu of the US departure from the gold standard in 1971. It left the nominal hard peg of dinar to dollar in 1973 and by 1981 held a so-called basis rate, essentially a floating rate tied to the dollar but with flexibility defined by the National Bank of Yugoslavia. At the same time, the internal market among domestic banks for the foreign currency exchange was legally allowed.[59] We can essentially view this period, until the time of stronger state intervention during the early 1980s, as the most 'open' for foreign trade and dealings with the foreign capital in the whole socialist period.

Chairman of the Federal Executive Council (FEC) Džemal Bijedić met with Henry Kissinger in November 1974 in Belgrade. He repeated a familiar refrain that Yugoslavia was "socialist and non-aligned [...] our policy is based on principles we won't give up. But we are prepared to have friendship" and argued for continued financial support and stronger military support.[60]

Bijedić had visited the USA in March 1975 to consolidate the bilateral relations based on the 1971 declaration and to expand the scope of economic cooperation. Yugoslav government saw the global US position as under threat of declining in strategic terms, and that Washington was "opposing the positive changes in the struggles of peoples and states for political and

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57 AJ, 803, 607, *Izveštaj ekonomske misije Međunarodne banke za obnovu i razvoj, Vašington o sadašnjem /1971./ stanju privrede Jugoslavije i izgledima za razvoj u budućnosti*, Savezni sekretarijat za finansije, 4-321/1, 17. 8. 1972.

58 György Simon, Jr, *An Economic History of Socialist Yugoslavia*, Rochester, 2012, pp. 93–94.

59 Bukvić, Rajko, „Devizna politika Jugoslavije 1945–1990: iskustva i pouke", in *13th International Multidisciplinary Scientific Conference Eurobrand*, November 18–20, 2016, Kragujevac, Serbia (2016): pp. 53–54.

60 Robert Niebuhr, "In the Shadow of Transition: U.S.-Yugoslav Relations, 1966 to 1980", in Martin Previšić (Ed.), *Breaking Down Bipolarity Yugoslavia's Foreign Relations during the Cold War*, De Gruyter, Berlin, 2021, p. 115.

economic independence" (Vietnam as the main example) and thus being the "main source of tensions on the international stage".[61] Beside President Ford and Deputy Secretary of State Robert S. Ingersoll, Bijedić met with heads of Exim Bank and OPIC, with Robert McNamara who was a head of the World Bank, and with a number of senators and congressmen. They left with an impression that the positive political attitude towards Yugoslavia was good enough frame for the unhindered economic cooperation and "an encouragement to American companies to venture into doing business with Yugoslav commercial organizations, and in for us especially important areas of agriculture, chemical industry, transport and black metallurgy". EXIM bank, for which Yugoslavia was the single largest customer in 1974, was still in principle willing to provide credits without hard limits (but usually to the tune of up to 200 million dollars per annum) but due to the bad press on Yugoslav balance of payments it wanted more detailed clarifications on that matter, which it received from the Bijedić and Yugoslav delegation. Bijedić was very satisfied with the talk with McNamara, as "this is the first time that the Bank, through its most responsible functionary, has clearly stated its long-term willingness to finance our development plans", which was in line with Bank's policy of expanding credits to the developing countries in general.[62] It is also worth mentioning that when the USA introduced the Generalised Scheme of Preferentials (GSP) through its Trade Act in 1974, Yugoslavia and Romania were the only communist countries that were granted these benefits, through the MFN status.

When Gerald Ford visited Yugoslavia in August 1975, Yugoslavs were pretty straightforward about wanting more American capital in Yugoslavia, both through credit but more-so through JV investments. They believed that this would (continue to) show the abilities to work across the ideological divide and give credence to the peaceful active coexistence. On the other hand, the US side was interested in Yugoslav's role in a number of issues – not only as an outside-of-Soviet-bloc communist country in European theatre, but also in the Middle East, and within its complex policy towards the Non-aligned world and the growing North-South divide.[63] It brought additional complexity into bilateral relations, that would subside after Tito's death in 1980 and a slowly diminishing importance of the NAM and Yugoslavia within it.

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61 AJ, 803, 625, SSIP, str. pov. 57, *Izveštaj o poseti predsednika SIV Sjedinjenim Američkim Državama*, 29. 3. 1975.

62 Ibid.

63 Robert Niebuhr, "In the Shadow of Transition...", pp. 116–118; Dragan Bogetić, „Poseta Džeralda Forda Jugoslaviji avgusta 1975. i jugoslovensko-američke nesuglasice oko aktuelnih žarišta svetske krize", *Istorija 20. veka*, 1/2013, pp. 157–180.

While the bilateral relations seemed stable enough, Yugoslavia became a subject of the presidential campaign in 1976. In the electoral debate in late October between President Ford and then Georgia Governor Jimmy Carter (and the future president), Carter stated that he "would not go to war in Yugoslavia even if the Soviet Union sent in troops.". That was in line with the prevailing post-Vietnam sentiment and in line with overall US strategic posture towards this issue. But the open statement such as this caused some stir in Washington. Henry Kissinger went on a popular TV show (a rare TV appearance for him at the time) to criticise Carter's statement, generally suggesting that the Democratic candidate did not yet understand the art of foreign policy, and that, if elected, would surely reconsider his "dangerous" statement.[64] A month before that, Yugoslavs were assured by Carter's foreign policy advisor and envoy and a seasoned visitor to Yugoslavia and Tito, Averell Harriman, that there won't be changes detrimental to Yugoslavia under Carter administration.[65] Belgrade adopted a cautiously optimistic wait-and-see approach.

Soon after that, and during the transition period of two US presidential administrations, the US Ambassador to Yugoslavia, Laurence Silberman, resigned to his post to much relief of the official Belgrade. A Yugoslav memo for the farewell meeting of the member of Yugoslav Presidency Vidoje Žarković with the departing ambassador explicitly states that "he did not put effort into developing the friendly relations and expanding the bilateral cooperation. To the contrary, he led a string of adversary actions. At the 2nd Session of the Yugoslav-American Chamber of Commerce in June 1976 he warned the US businessmen (some 70 of them present) to be careful when dealing with the Yugoslav's [...] He showed himself to be an exponent of those forces in American political life that believe that "it pays to put pressure" on Yugoslavia as by doing that some political gains can be made".[66] Noting other "mischievous" behaviour by Silberman, but also the pleas of the Yugoslav to the State Department to replace him, the memo clearly instructs Žarković not to extend courteous gratitude for his service in Yugoslavia.[67] This was a low-point of ambassadorial relations, but as the same memo noted, one can claim that the bilateral relations have been favourably developing for a

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64 "Kissinger Scores Carter's Stand Of Nonintervention in Yugoslavia", *New York Times*, 25 October 1976. Available from: https://www.nytimes.com/1976/10/25/archives/kissinger-scores-carters-stand-of-nonintervention-in-yugoslavia.html, (Accessed 20 December 2022).

65 Đoko Tripković, „Kardelj – Hariman: 'Šta posle Tita'", *Istorija 20. veka*, 2/2011, pp. 173–186.

66 AJ, 803, 638, 07-04, Predsedništvo SFRJ Pov. 380/76, 14. 12. 1976.

67 Ibid.

number of years and were not essentially shaken by the poor standing a single ambassador had in the capital. In covering the standing economic questions at that time, the memo highlights the equipment for the Krško Nuclear Power Plant and the permanent air-traffic agreement between two countries.[68]

After a sequence of ad-hoc and interim agreements between two states and their two flag-carriers (Pan Am and JAT), the Air Transport Agreement was signed in December 1977, with specific routes and airports designated (New York and Chicago as regular for JAT, and Los Angeles, Cleveland and Detroit on occasion, and Belgrade and Zagreb for Pan Am).[69] For JAT, it was corelated to the expansion of its newer wide-body fleet (new DC-10s instead of B-707s).

After the heyday of military assistance programs (1951-1957) from the early 1960s the Soviets became a prime supplier of most advanced military hardware.[70] Tanks (T-55), fighter jets (MiG-21), helicopters (Mi-8) and surface-to-air missiles were introduced in YPA service in that period. US doubts over the course of Yugoslav foreign policies, Yugoslav trade connections to Cuba, the wide disagreement over Vietnam War, and the prices of the US military hardware made it both unattractive and inaccessible to Yugoslavia.

Two countries became more serious about military cooperation – essentially Yugoslav purchase of US equipment and higher officers' staff education only in latter part of the 1970s. Defense Secretary Harold Brown visited Yugoslavia in October 1977 "to begin the process of modestly increasing our military relationship" and to explain to the Yugoslav side Carter's instruction to curb down US military sales in general but to try to broaden it with the Yugoslavs.[71] Brown outlined to his counterpart, the Federal Secretary for People's Defence general Nikola Ljubičić, what was in principle available to the Yugoslav side – "defensive weapons only, no sensitive technology" – while admitting that the US procedures were at times problematic and hindered purchases that were principally agreed upon. Yugoslav side was not particularly happy with the scope of possibilities, but Brown assured them that the visit was just a start of conversations on the topic.[72] The visit was also used to put behind the stir in Washington when it

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68 AJ, 803, 638, 07-04, Predsedništvo SFRJ Pov. 380/76, 14. 12. 1976.

69 Ilija Kukobat, "Development of Air Transport between Yugoslavia and the United States of America", *Istorija 20. veka*, 2/2022, pp. 451–452.

70 CIA, Directorate of Intelligence, *The Changing Pattern of Yugoslavia's Arms Procurement*, January 1971.

71 FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 246, *Memorandum From Secretary of Defense Brown to President Carter*, October 20, 1977, pp. 699–792.

72 Ibid.

was publicised that Yugoslavia delivered M47 tanks that it got from the MSA program in the 1950s to Ethiopia's military regime (the "Derg").[73]

In 1978 Yugoslavia had requested the US government approval for co-production and assembly of the TF-30 jet engine used in modern fighters and fighter-bombers (F-14, F-111, A-7), for its perspective supersonic fighter to be built in the 1980s. While the approval was given for direct talks with the manufacturer (Pratt & Whitney), the talks with P&W stalled as Yugoslavia wanted a co-production scheme and not a straight sale. The US government position was that it would be hard to make the sale and licencing anyway due to the legal and policy restrictions, despite strategic and political arguments to approve the transfer that were made by the Secretary of State.[74]

A new modality of military cooperation was established in September 1979 through the Memorandum of Understanding and two standing commissions, military-economic and scientific-technical. Talks on purchasing specific equipment (mostly missiles and radars) have started soon after but Yugoslav saw high prices and restrictive end-user licencing as difficult obstacles.[75] Yugoslav side was also requesting to purchase two types of missile: M47 Dragon anti-tank missile and AGM-65 Maverick air-to-ground missile. There were production issues with the M47 and the US Army was not willing to sell it from its own stocks but ultimately Yugoslavia lost an interest in the purchase due to "tremendous burden of procedural problems".[76] The Maverick missile was sold and was used as a weapon for the newly produced J-22 Orao attack aircraft which was built with UK engines and a host of other Western equipment[77] through the joint venture with Romania, signalizing the latter's rising importance for the West in the 1970s). In general, Yugoslavs repeatedly

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73 FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 245, *Memorandum of Conversation*, October 13–14, 1977, pp. 782–789; Milorad Lazić, "Arsenal of the Global South: Yugoslavia's Military Aid to Nonaligned Countries and Liberation Movements", *Nationalities Papers*, 2021, 49(3), p. 438.

74 FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 262, *Memorandum From Secretary of State Vance to President Carter*, Washington, January 2, 1979.

75 AJ, 803, 672, SIV, Str. pov. 637/79, *Informacija povodom zvanične posete državnog sekretara Sjedinjenih Američkih Država Cyrus Vance-e*, 21. November 19, 1979, pp. 5–6.

76 FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 266, *Memorandum From Robert Kimmitt, Marshall Brement, and Steve Larrabee of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)*, July 11, 1979, pp. 874–876.; FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 270, *Memorandum of Conversation*, October 15, 1979, pp. 891–893.

77 Bojan Dimitrijević, *Jugoslovensko ratno vazduhoplovstvo: 1942–1992*, Institut za savremenu istoriju, Beograd, 2006, p. 242.

complained about the high prices of the US military equipment and the lack of practical credit lines for US foreign military sales through commercial means (as Yugoslavs sought to bypass the politically difficult congressional approval for state credits). When general Ljubičić spoke to US General Ernest Graves Jr. (director of the Defense Security Assistance Agency) in Belgrade in February 1980, he complained about the issue. Ljubičić was open towards the idea of receiving small quantities of modern US weapons suitable for the Yugoslav needs, such were FGR-17 Viper antitank rocket, Harpoon anti-ship missile, FIM-92 Stinger and Roland (Franco-German product) anti-aircraft missiles, for training purposes. The idea was that the YPA should have some experience with such weapons so that in a case of Soviet attack and the gradual retreat towards the Adriatic coast and keeping on with the resistance, the army would be capable of using the modern military aid that was to be forthcoming from the West in such an event.[78] Sometime later, the US Army provided 50 sets of TOW and Dragon anti-tank missiles and also 50 sets of FIM-43 Redeye anti-aircraft missiles for training purposes. These weapons were already in use with the US military, and it was possible to deliver them in larger quantities in case of war, so it was deemed practical to use them in that role.[79] The most significant military purchase by the end of 1980s was the acquisition of radars. The type AN/TPS-63 was bought both for the military and civilian Federal Directorate for Flight Control (8 in total, they started arriving in 1983), and later the more modern and longer range AN/TPS-70 (4 in total for the military, from 1985).[80]

At the end of the 1970s Yugoslavs were fairly satisfied with bilateral relations with the US. Besides mutual Tito-Carter visits and their frequent exchange of letters on the various international topics (Mediterranean, détente in Europe, CSCE, Middle East, Horn of Africa etc), there were a number of visits of other high-level politicians to the US (Edvard Kardelj, leadership of the Federal Assembly, Federal Secretary of Defence Nikola Ljubičić etc), with Vice-president Mondale visiting Yugoslavia, Secretary of Defence Harold Brown, Secretary of State Cyrus Vance etc. Shortly before Tito's death, the main obstacle for bilateral relations from the Yugoslav point of view laid in the disagreements over other international issues (in the Middle East, US attitudes toward some of the NAM countries etc.) and in the work of groups

78 FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 280, *Memorandum From Stephen Larrabee of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)*, February 13, 1980, pp. 916–917.

79 FRUS, 1977–1980, Vol. XX, Eastern Europe, No. 285, *Telegram From the Department of State to the Embassy in Yugoslavia*, March 11, 1980, pp. 929–932.

80 Bojan Dimitrijević, *Jugoslovensko ratno vazduhoplovstvo: 1942–1992*, Institut za savremenu istoriju, Beograd, 2006, p. 253.

opposing the closer ties (Yugoslav émigré networks, "Jewish lobby").[81] The official Belgrade eyed the economic expansion through JV projects, bringing more US companies to the Yugoslav market and attracting more commercial capita, and through the US influence in IBRD and IMF, acknowledging that for better cooperation with international capital more of a domestic effort was needed, through a process of cooperation and coordination of republics, provinces and the so-called interest communities, a form of commercial association of enterprises and municipalities within the association of labour, the core of structure of Yugoslav socialist economy since the mid-1970s.[82]

At the time, the ruling party and state apparatus were preparing for the post-Tito era. Through constitutional amendments since 1971 when the collective Presidency was established, with Tito at its head for his lifetime, a set of institutional solutions were sought for the 'transition' to post-Tito period. While the 1974 Constitution decisively tilted the political and most of the economic power and decision-making process towards the republics (and provinces), the collective Presidency (with chairman rotating on an annual basis) meant that there was to be no more "Titos" after Tito – no central personality, no dictatorship, no charismatic personality to iron out the differences and give the last word. This was an answer to a (perpetual) crisis of legitimacy for post-war revolutionary parties such was LCY.[83]

## A DECADE OF YUGOSLAV ECONOMIC DECAY

The high levels of growth of material product and wages in the 1970s were based on the strong conjuncture in the domestic market, increased reliance of foreign loans (the sovereign debt rose from $6.6 billion in 1975 to over $18 billion in 1980) and the dependence on imported energy (oil). Investment expenditures rose sharply over the second half of the decade, to the level of 35% of the net material product, which put strain on the finances across the sectors and contributed to the rising inflation and price disparities. From the growth of 7% in 1979 – also a year with the highest post-war trade deficit as well – the growth over the next five years dropped to under 1% per annum.[84] And such growth was not followed by the corresponding growth of labour

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81 AJ, 803, 658, Predsedništvo SFRJ, Str. pov. 185/2, Dugoročni odnosi SFRJ–SAD, 1. 11. 1978.

82 Ibid.

83 Robert Niebuhr, *The Search for a Cold War Legitimacy. Foreign Policy and Tito's Yugoslavia*, Brill, Leiden and Boston, 2018, pp. 171–192.

84 Dragutin Marsenić, *Ekonomika Jugoslavije*, Ekonomika, Beograd, 1990, pp. 210–211.

productivity, which has underperformed per the view of the early 1983 NBY analysis for the FEC.[85] While there were many roots to the economic crisis of the (early) 80s, we cannot go into many details in this paper. The bottom line was that the rising costs of borrowing new money and the growing inability of socially owned enterprises to export goods to competitive (and hard currency) markets meant that the state could not levy enough of foreign currency to service its debts. Since 1980-81 both the state apparatus and the wider public were painfully aware of this.

The economic relations with the USA partially showed some elements of the looming predicament. From 1976 to 1980 the Yugoslav imports from the USA grew three-folds in dollar terms while the exports stagnated. The export structure was also worsening: the ratio of goods of higher level of manufacturing was dropping while the ratio of raw materials and semi-manufactured goods was rising. As domestic prices rose through high inflation, some products were simply more profitable in the domestic market, or at the West European markets. The SFRY Presidency saw the US market as "very important in the long term from the point of view of its enormous absorption power, and also as a source of supply of Yugoslav economy with modern equipment and technologies (for nuclear plant, commercial aviation, computers, mining equipment)".[86] The Presidency implored Yugoslav companies to cooperate strongly on the manufacturing for the US market as such, and not to treat it as an occasional market for surpluses that couldn't be sold domestically or in Europe, and to adjust to the quality requirements of the US market in general for continued and sustainable product export. The federal Presidency praised the US role as a technology exporter to Yugoslavia (second only to Germany). At the turn of the decade, the US firms were involved in several important industrial projects such as Krško Nuclear Plant, Trbovlje Gas Plant, Energoinvest's wire manufacturing plant in Sarajevo, Žirovski Vrh uranium mine etc). Some joint ventures between Yugoslav and US companies for the third markets were also in play, as with Naftagas' cooperation with Houston-based oil and gas drilling specialists for a project in Tunisia.[87] And many such projects proved to be failures, such as DINA (integrated petrochemicals plant), DOKI (a large polystyrene factory), Dow Chemicals' joint ventures in Yugoslavia in late 1970s.[88] The Presidency also asked for fine-tuning of

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85 AJ, 130, 8464, 935, *152. sednica SIV*, 12. 5. 1983, t. 5.

86 AJ, 803, 695, Predsedništvo SFRJ, Str. pov. 445/2, *Informacija o ostvarivanju ekonomske saradnje sa SAD sa predlozima mjera za njeno unapređenje*, December 18, 1980, pp. 1–2.

87 Ibidem, p. 3.

88 Ljubiša S. Adamović, Džon R. Lempi i Rasel O. Priket, op. cit., pp. 120–121.

export subsidies to show more favour for the exports towards the US. The data showed that from 1978 to 1980 the so-called regional stimulation of exports to the US fell from 7% to the 1,7% of the price of the exported goods, and that the National Bank of Yugoslavia, Chamber of Commerce, and Interest Community of Yugoslavia for Economic Relations with Abroad should look more closely into the matter.[89]

Belgrade praised the relationship with the USA at the time after Tito's death. As an internal FEC memo stated, "the bilateral relations and cooperation have been successfully developing over the last several years. The results of President Tito's visit to USA in March 1978, and of President Carter in June 1980 to our country and joint statements that were published as the established basis for long-term relations, represent thus far the highest level of mutual cooperation. That is the result of both sides' efforts, but also of the quality that through the enhanced dialogue and high-level exchange of messages, it is based on mutual respect for differences".[90] Still, economic relations were not really inducive for prospective Yugoslav development. Through the second half of the 1970s Yugoslav imports from the USA rose (to appx 1 billion dollars) while the exports have stagnated (at the level of 300-400 million dollars), thus adding to the overall trade deficit. Furthermore, more than 250 million dollars of annual imports from the USA were food imports (wheat and cattle food), showing directly the poor state of the Yugoslav agriculture. Metals and other raw materials still made around a half of Yugoslav exports. Processed food, furniture, clothing, machinery, and other products that contain added value in trade have been relatively declining as a part of the exports, thus indicating brewing problems with Yugoslav economic competitiveness. The FEC report clearly stated that the US market showed "objectively favourable conditions" for Yugoslav exports overall but has noted that newly generally restrictive US trade policies have had some negative impact on the trade with Yugoslavia. The report put the blame on the poor export performance on several factors: organizational/managerial problems, poor trade networks of Yugoslav companies, strong domestic demand and growing and favourable demand from the Eastern Bloc countries and to a lesser degree from the Western Europe.[91] The US was the lead foreign investor in Yugoslav industry (at that time to the tune 181 million dollars and 39% of overall foreign investments since the late 1960s) and the second

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89 Ljubiša S. Adamović, Džon R. Lempi i Rasel O. Priket, op. cit., p. 4.

90 AJ, 130, 8128, SIV, Str. pov. 236/81, *Informacija o američkoj spoljnoj politici i odnosima SFRJ–SAD*, April 1981.

91 Ibidem, pp. 18–20.

technology exporter (behind West Germany).[92] The US was also the lead source of credit. EXIM bank issued 1.39 billion dollars of credits in the 1970s, OPIC issued over 77 million dollars of guarantees to US companies' ventures in Yugoslavia while the US government was instrumental in securing some 400 million dollars of loans through the US commercial banking sector in the late 1970s. From 1977 to 1981 the IBRD issued 1.215 billion dollars of development credits to Yugoslavia while some 1.5 billion were in the pipeline for the early 80s. In 1980 the IMF gave 260 million dollars in special drawing rights while at the early stages of the Yugoslav economic crisis of the 1980s the Yugoslav government expected some 2.2 billion for the upcoming three-year period.[93]

But there were early doubts in Yugoslavia about the Ronald Reagan presidential campaign and eventual consequences of him being elected in November 1980. In a 23 July 1980 conversation with the US Ambassador Lawrence Eagleburger (right after the Carter visit to Yugoslavia), the member of the LCY Central Committee (and former Federal Secretary of Foreign Affairs) Miloš Minić stated his surprise at Reagan's connection to the Croatian extremist immigration and his letter published in an "ustasha journal" in which he stated that Yugoslavia is an "artificial creation and will, as all other artificial creations in history, collapse one day". Minić then spoke of "the other" US policy towards Yugoslavia, a hidden one "that could be very dangerous for our country" and has relayed a message to Kissinger that Reagan should officially denounce the statement. Eagleburger was aware of the issue, and he assured Minić that it was the case of internal Republican Party pressures by specific East-European lobby groups that "planted a letter to Reagan" and has reminded Minić that Reagan has already made a public statement that the "internal organization of Yugoslavia is a matter for Yugoslavia and not for the USA".[94] The episode showed some discomfort over the ideological drive that underpinned future Reagan presidency regarding his attitudes towards communism, including towards Yugoslavia. The first high-level visit from the USA in that context was by Alexander Haig, the Secretary of State, in early September 1981. A short stop on Haig's European tour was meant to make a sense of the bilateral relations for both countries in post-Tito and Reagan era, and the Yugoslav side was cautiously satisfied with its results.[95]

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92 AJ, 130, 8128, SIV, Str. pov. 236/81, *Informacija o američkoj spoljnoj politici i odnosima SFRJ–SAD*, April 1981, pp. 20–21.

93 Ibidem, p. 21.

94 AJ, 507, IX, 109/V-141, Pov. br. 394/1, *Zabeleška o razgovoru člana Predsedništva CK SKJ Miloša Minića sa ambasadorom SAD u našoj zemlji L. Iglbergerom*, 23. 7. 1980.

95 AJ, 507, IX, 109/V-152, *Informacija o zvaničnoj poseti državnog sekretara Sjedinjenih Američkih Država Alexandera Haig-a SFR Jugoslaviji 12. i 13. septembra 1981. godine*.

After the financial problems of Poland in 1981,[96] the Yugoslav economic woes got wide-spread international attention in 1982. Early and unsuccessful attempts in 1982 to secure adequate loans and roll-over facilities spilled over into domestic economic policy of the tightened budgetary expenses and the spending of already dwindling foreign exchange reserves. Belgrade also devalued the dinar in June 1980 to boost the exports and stifle imports and introduced the energy consumption rationing (which was in line with the concurrent rise of global oil prices). Still, even with these measures Yugoslavia needed around 2.5 billion dollars of financial aid from abroad to avoid formal bankruptcy. Ambassadors Eagleburger and David Anderson (in office in Belgrade from 1981) and several US bankers that were well aware of the Yugoslav situation made efforts to distinguish Yugoslav case from those of other communist countries in political and economic terms and urged for aid package, fearing that Yugoslavia could face outright rejection by the Western financial markets and governments.[97]

The agreement reached with the IMF in 1982 stipulated that Belgrade should decrease its current account deficit to 0.5 billion dollars (from 2.2 billion in 1980 and 1.3 billion in 1981) and to keep the inflation rate at 15%, while it hovered around 40% over the two previous years. At that moment the commercial banks were still unwilling to provide more finance to Yugoslavia and were also very unforthcoming with rolling over the short-term overdue payments. Within such a scenario, a political step-up by the Western governments to provide necessary lending was to be expected.[98] The US policy towards Yugoslavia at the time perceived that any deterioration in Yugoslavia's economic situation might have weaken its resolve to withstand Soviet pressure.[99]

From April 1982 to July 1983 the LCY was strategizing the recovery and reform measures. Through elaborate inter-committee and inter-republic meetings, the party apparatus produced a document called "The Long-Term Program of Economic Stabilisation" (LPES), whose legal instruments became law at the Federal Assembly sessions in July 1983. The LPES brought measures across the economic spectrum. It tried to enforce realistic interest rates in a non-market economy, tried to stabilize the currency by sticking to a phased

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96 Ivan T. Berend, *An Economic History of Twentieth-Century Europe – Economic Regimes from Laissez-Faire to Globalization*, Cambridge University Press, Cambridge, 2006, pp. 182–185.

97 Ljubiša S. Adamović, Džon R. Lempi i Rasel O. Priket, op. cit., pp. 139–145.

98 Department of the Treasury, "Eastern European and Yugoslavia's Debt Situation", Washington DC, 18. 5. 1982, p. 4.

99 FRUS, 1981–1988, Vol. III, No. 260, *National Security Decision Directive 75*, Washington, 17. 1. 1983.

plan of dinar devaluation, it allowed for the People's Bank of Yugoslavia to assume more strict control over currency flows and (quasi)sovereign debt oversight.[100] It was politically critical to some elements of the Yugoslav socialist self-management system as it existed in its most-elaborated form since the 1974 Constitution and the 1976 Law on the Associated Labour, the "Bible" of Yugoslav model of social ownership and free association of labour. But it offered no meaningful way out and it was almost impossible to see how it could, as the party leadership would have to endorse much more radical changes and to denounce what it saw as its prime ideological achievement. It had no capacity to do so nor the true consensus on the implementation of even enacted economic reforms, and muddling through would remain the main characteristic of the party dynamics right until its very end.

The disconnect between the party and state planning and the reality was visible in many ways. In early 1983, in the first two months the volume of imports of machinery from the convertible currency area (Western Europe, USA) was already at 48% of the volume planned for the whole year. The cap on the wages was completely circumvented, as the wages rose in the first two months by 29%. They were probably just following the hyperinflation, as the monthly inflation reached 31% in February while the official goal for the whole year was 20%. On top of that the full-blown crisis in oil (crude and refined) supply has emerged: less than half of planned imports were completed for the first trimester, with the lack of hard currency as the main cause.[101]

In September 1983 Vice-president George H. W. Bush visited Yugoslavia to reaffirm the bilateral relationship, in a broader effort to assert the American presence in this region. His main counterpart was Milka Planinc, the President of the FEC.[102] He used the opportunity to explain Reagan administration's economic policies (mostly the effects of rising interest rates and new protectionist measures) which had a wider international effect. He offered general assurances of further American economic aid but without specific guarantees, leaving that to the rolling performance of both American financial capabilities and Yugoslav anti-crisis measures enacted in the summer of 1983. While he was keenly interested whether such measures would have far-reaching transformative effects on economy and its system on political management, Planinc at first refrained herself within the minutiae

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100 FRUS, 1981–1988, Vol. III, No. 260, *National Security Decision Directive 75*, Washington, 17. 1. 1983, pp. 138–139.

101 AJ, 803, 791, Predsedništvo SFRJ, Str. pov. 70/1/83, *Informacija o ocenama privrednih kretanja početkom ove godine i merama za sprovođenje rezolucije*, 11. 3. 1983.

102 AJ, 803, 790, *Zabeleška o razgovoru predsednika Saveznog izvršnog veća Milke Planinc sa potpredsednikom SAD Džordž Bušom*, 17. 9. 1983.

of economic problems. To his question whether the people are supportive of the restrictive economic measures, Planinc said that the real disposable income fell by 20% over the previous years and 10% in 1983 alone, and that she didn't know what government could have stayed in power with such a drop if there was no cooperation and even endurance.[103] She then elaborated that the overall idea of the anti-crisis measures was to lessen the interference of (all levels of) state into economic affairs but to increase the state's financial discipline, and to allow further exposure of Yugoslav economy to market pressures of more developed countries, in order to increase the low productivity.[104] Bush was very satisfied with the stated orientation of the economic measures ("a music to our ears"[105]). While expressing the gratitude for the creation of the group of "Friends of Yugoslavia", she explained how the growing trade with the Eastern bloc and especially the Soviet Union was very favourable for Yugoslav foreign trade. While Yugoslavia suffered huge trade deficit with the West, the USSR was drawing ever more Yugoslav exports in exchange for energy and commodities that Yugoslavia lacked, while not costing Yugoslavia much in terms of hard foreign currency.

Bush's visit to Yugoslavia was a part of a three-way trip to communist countries, to Hungary and Romania as well. The trip was supposed to reconnect the USA with three communist states with which over the years more productive relations have been established, and to positively influence specific economic issues in all three of them – with the "Friends of Yugoslavia" package; with resolution of the Romanian education tax and the status of the Most Favourable Nation; and with the quieter IMF/bank effort for Hungary).[106] These were all in line with Reagan's newly established policy towards Eastern Europe, as stated in the National Security Decision Directive 54 of September 1982.[107] The primary aim was to loosen the Soviet hold onto the Eastern Europe and to facilitate its eventual reintegration into the European community, through encouraging pro-Western (in a broad sense) political diversity within Eastern European countries. The State Department's takeaway from the Bush's visit was that Yugoslavia was struggling to modernize

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103 AJ, 803, 790, *Zabeleška o razgovoru predsednika Saveznog izvršnog veća Milke Planinc sa potpredsednikom SAD Džordž Bušom*, 17. 9. 1983, p. 3.

104 Ibidem, pp. 4–5.

105 Ibidem, p. 7.

106 FRUS, 1981–1988, Vol. I, Foundations of Foreign Policy, No. 172. *Information Memorandum from the Assistant Secretary of State for European and Canadian Affairs (Burt) to Secretary of State Shultz*, Washington, 25. 10. 1983.

107 National Security Decision Directive 54, "United States Policy Towards Eastern Europe", 2. 9. 1982.

its economy, with emphasis on decentralization and market forces, while its foreign policy remained independent and nonaligned. The decided course of action was that the US should continue a strong commitment to support Yugoslav independence, which at that moment required the US leadership in crafting a financial assistance package for 1984 acceptable to private banks and participating governments, as well as to the Yugoslav government.[108]

Reagan administration decided to lend the financial support to Yugoslavia in various ways, due to its retained perception of Yugoslavia as an "important obstacle to Soviet expansionism and hegemony in Southern Europe" and "as a reminder to countries in Eastern Europe of the advantages of independence from Moscow and of the benefits of friendly relations with the West".[109] The administration charted the course of broad support to Yugoslavia's efforts to overcome the economic issues in ways that tie Yugoslavia to industrialised democracies. It wanted to continue high-level political dialogue that would encourage Yugoslavia's "moderating role within a Nonaligned movement and to counter Cuban and Soviet influence in that organisation". Regarding technology transfer, the administration allowed for the administrative revisions of stringent standards and in that sense will have in mind the standards it applies to Austria and Sweden (also neutral European countries). Also, Yugoslavia was able to purchase military equipment "required for their legitimate defense needs on a case-by-case basis, subject to appropriate technology safeguards and financial arrangements".[110]

Still, at this time, the official Belgrade grew increasingly worried over several trends in international relations that it saw as detrimental to its own interests. These were the heightened tensions between the USA and the USSR due to the Soviet shoot-down of the Korean airliner in early September and the prolonged crisis of the land-based missiles deployed first by Soviets and then the Americans in Central Europe. For the renewed ideological competition, the official Belgrade put the blame more on Washington, but in general it saw signs from both superpowers that they "increase, in various ways, pressures onto the NAM and DCs [developing countries] in efforts to bring them closer to the aims of their policies".[111] While in political terms Yugoslavia saw the

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108 FRUS, 1981–1988, Vol. I, Foundations of Foreign Policy, No. 172. *Information Memorandum from the Assistant Secretary of State for European and Canadian Affairs (Burt) to Secretary of State Shultz*, Washington, 25. 10. 1983.

109 National Security Decision Directive 133, "United States Policy Toward Yugoslavia", March 14, 1984. This directive was the specific Yugoslav follow-up of the NSDD 55 od 1982.

110 Ibid.

111 AJ, 803, 790, SSIP Pov. br. 4398891, *Položaj Jugoslavije u uslovima sadašnjih međunarodnih odnosa*, October 13, 1983, p. 3.

NAM and its position within it as a prime arena of its activity, in economic terms it was clear that "in our economic relations with nonaligned and other developing countries, the stated goals are not being fulfilled" with "unfavourable regional positioning of our foreign economic relationship and high level of foreign financial and technological dependency".[112]

Since the summer of 1985, Deputy Assistant Secretary John Whitehead was tasked with more activist and tailor-made approach to Eastern European countries in order to exploit the early period of changes with the "ruling elites increasingly demoralized, defensive, [...] ideological elan and corporate party identity [...] now largely dissipated" and "pragmatic 'technocratic' communist model of the 1970's discredited [...] leaderships are aging and tired".[113] Whitehead had visited Yugoslavia in November 1986 on talks for rolling-over the Yugoslav debt and for signing off the new bilateral consular convention and the exchange of letters on dual citizenship. Ambassador to Yugoslavia John Scanlan later relayed to Yugoslav Federal Secretariat for Foreign Affairs that the visit was met with "very positive reactions in Washington", that it was "very successful", even on the topics of international terrorism.[114] The issue was the one of hijacking of Italian cruise ship *Achille Lauro* by the Palestine Liberation Front (PLF) in October 1985. In the immediate aftermath of the hijacking, the PLF leader Abu Abbas was given safe passage through Yugoslavia (among other countries), to much consternation of the Western public and of the USA, whose citizen was killed by the hijackers.[115] Even George P. Schultz's visit to Yugoslavia in December was dominated by the consequences of these events and public spats with Yugoslav officials.[116]

Yugoslav economy scored a symbolical export breakthrough when a Yugo car, manufactured by *Crvena zastava* from Kragujevac, went into sales on the US market in early 1985 through a Yugo America JV company. It was marketed as a cheapest new car in the USA and by 1992 some 140.000 models were sold. As many large enterprises in Yugoslavia in the 1980s, *Crvena zastava*

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112 AJ, 803, 790, SSIP Pov. br. 4398891, *Položaj Jugoslavije u uslovima sadašnjih međunarodnih odnosa*, October 13, 1983, p. 5.

113 FRUS, 1981–1988, Vol. I, No. 311, *Paper Prepared in the Bureau of European and Canadian Affairs*, Washington, undated.

114 AJ, 803. 928, SSIP, Pov. br. 566/2, *Iz zabeleške o razgovoru PSS D. Štrpca sa ambasadorom SAD u SFRJ Dž. Skenlonom, 4. decembra 1987. godine*, 8. 12. 1987.

115 Gus Martin (Ed.), *The SAGE Encyclopedia of Terrorism*, SAGE, London, 2011, pp 52–53.

116 "Fiery Shultz Slams Yugoslavia Action", *Chicago Tribune*, December 19, 1985. Available from: https://www.chicagotribune.com/news/ct-xpm-1985-12-19-8503280191-story.html (Accessed 19 October 2022).

was under political pressure to bring in hard currency from the exports so the state could use it to repay the sovereign debt, covering it up with dinars and constantly creating inflationary pressures. But it was not all politics. For *Crvena zastava*, declining domestic demand due to ongoing crisis and the saturation of European markets made the US market a somewhat interesting opportunity. Necessary changes on the model destined for export also meant that the established higher quality control had a positive spillover for the manufacturing process at large and for the domestic consumers as well.[117]

Through the complex of difficult economic situation and prolonged political stalemate in Yugoslavia, bouts of both optimism and pessimism were expressed by US Ambassador David Anderson in his talk with Serbian party leader Ivan Stambolić. He remarked that "if there was one thing that I've learned during my multi-year stay in Yugoslavia, it is that however your situation is politically and economically complex and difficult, you Yugoslavs have a depth and refinement to overcome many crises".[118] "However", he added, "I have a reservation regarding transfer of power onto your republics. I think you went too far with it and that Yugoslavia is not economically integrated enough to be competitive with its products on the foreign market. If that part of the equation does not change and if the disintegration of Yugoslavia continues with the economic empowerment of republics, it will be difficult to continue with your country's economic development. The time is now for Yugoslavia to make an economic leap and enters the XXI century". "You see," he ended, "I still don't know why the Yugoslav worker works better in Germany than in his own home".[119]

## YUGOSLAVIA'S FINAL YEARS

While the slower growth of imports in comparison to exports in 1980-1988 period did help to stabilize the current account deficit, combined with the rather slow growth of export it led to the slowdown in industry and even to a decline in 1987–88.[120] This almost ten-year period of restrictively managed trade led to the fall of Yugoslav trade share in overall global trade, from 0.90% of global exports in 1979 to 0.47% in 1988. The strong focus on the

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117 Ranka Gašić, *Jugoslovenski Detroit: automobilska industrija u Kragujevcu 1953–1991*, Institut za savremenu istoriju, Beograd, 2017, pp. 172–184.

118 AJ, 507, IX, 109/V-194, *Zabeleška o razgovoru predsednika CK SK Srbije Ivana Stambolića sa ambasadorom SAD u SFRJ Dejvidom Andersonom*, 13. 6. 1985.

119 Ibid.

120 AJ, 130, 10031, 12, 336-7/90, SSIP, *Izveštaj o realizaciji robne razmene sa inostranstvom u 1989. godini*, februar 1990.

export to convertible currency markets has yielded some results in terms of orientation of Yugoslav exports, as its share rose from 0.25% of their overall imports in 1979 to 0.31% in 1988.[121] The rolling reforms under the latter half of the Branko Mikulić's FEC in 1988 and 1989 have introduced the closing of loss-making companies (adding to the unemployment levels and pressuring the social security system), slow and fragmented release of control of some prices and wages that were previously introduced. And all that in agreement with the IMF to keep the standby programs still rolling, as in 1987 Yugoslavia reached a peak of its financial crisis.

In 1989–90 Yugoslavia was clearly a country of second-tier importance in the Western interest over the collapsing communism in the Eastern Europe and the changes across the bloc division.[122] That was true both for the US as well as for the EEC and more relevant West European capitals. If it could have pulled of a combination of reasonable political and economic reforms in line with the newly forming mainstream – that is, to a capitalist liberal democracy – it would have gotten more positive attention. Being outside of the Soviet bloc also made sure that any problems in Yugoslavia were not truly Europe-wide, would not touch upon the most sensitive security issues (nuclear posture and proliferation) nor endanger the said forming mainstream. The US (and the EEC for that matter) differentiated approach meant that the tangible support would come only to those forces that could truly push and deliver results. Mostly because of structural and institutional reasons, the federal government was not in such a position despite making what seemed to be reasonable appeals to Washington (and Brussels).

As the new chairman of the FEC since March 1989, Ante Marković went to official visit to the US in October 1989 and met with President George H. W. Bush in the White House. Bush had reaffirmed American support for Yugoslav independence, unity, and sovereignty Markovic's commitment to market-oriented economic reform and of building democratic pluralism throughout Yugoslavia. Marković was looking for 1 billion dollars for transformation of Yugoslavia's banking system and for World Bank's loan of 300-350 million dollars.[123] But Markovic's emphasis to the American public was that the focus was on the overall support and on the money itself, he was trying to raise the image of Yugoslav companies trying to do business in the US, and he was also

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121 AJ, 130, 10031, 12, 336-7/90, SSIP, *Izveštaj o realizaciji robne razmene sa inostranstvom u 1989. godini*, februar 1990.

122 Milan Igrutinović, „Zapadna Evropa i raspad Jugoslavije", u: *Građanski rat u Hrvatskoj*, Udruženje Srba u Hrvatskoj, Belgrade, 2013, pp. 78–92.

123 "Bush Meets With Yugoslav Prime Minister", *AP News*, October 13, 1989. Available from: https://apnews.com/article/827481841e71c573f509016b542a5306 (Accessed 19 October 2022).

competing for attention with other European communist countries that have embarked on pro-market reforms (Hungary and Poland). What he got out of the visit was political support for the transformative push for the Yugoslav market integration with the emphasis on the commercial banking reform through the introduction of market mechanisms (money markets, bonds, stocks etc), on the SME financing schemes, on reform of tax system and of the public accounting system. The support was supposed to come through the mix of financial aid and expert and technical advice, and in conjuncture with ongoing project with the World Bank that had approved the loan.[124]

In December 1989 the FEC pushed through the Federal Assembly the reform package[125] that envisioned dinar convertibility, monetary and fiscal policies (flexible pegging to the German mark at the 7:1 ratio, bringing down the inflation, free formation of prices besides utilities and communal and infrastructural services), and for the first time after 1945 a right of private ownership over means of production (through restrictive rights of the workers in a given enterprise to initiate the process of privatizing the public ownership). The effect of cumulative measures had a reasonable success in 1990: retail prices inflation dropped from 1700% in 1989 to 130% in 1990, and the overall supply of goods became much better thus alleviating the demand pressure. But, the federal government had to devalue the dinar once again in December 1990 (to 9 dinars for 1 German mark) and to limit the withdrawals of hard currency from the country. Following up on the demise of the LCY in the spring of 1990, Markovic launched a Yugoslav political platform which, in economic terms, fully embraced pro-market reforms and privatization ('from below', by the workers of any given enterprise). But that was too late as elections in Slovenia and Croatia had already brought new and non-communist parties with nationalist agenda, and for various reasons, he suffered defeats in other republics' elections by the end of the 1990, and no federal multi-party election were held by the time of the state collapse in late 1991.[126]

By late 1990 domestic dynamics has consumed all the political attention both within Yugoslavia and internationally. The process of multi-party elections gave rise to the non-communist and reformed or quasi-reformed communists, complicating internal discussions on the common ways out of the crises. These crises were starting to coalesce around the issues of national/

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124 AJ, 130, 9718, 336-35/89, *Predlozi identifikacije ključnih segmenata i konkretnog načina organizacije, primene i realizacije ponuđene pomoći SAD*, 18. 12. 1989.

125 György Simon, Jr, op. cit., p. 62.

126 Josip Glaurdić, Vladimir Filipović and Christophe Lesschaeve, "The Failure of 'Yugoslavia's Last Chance': Ante Marković and his Reformists in the 1990 Elections", *Nationalities Papers*, 2022, pp. 1–20.

ethnic rights, plans and perspectives, a mixture that became explosive in 1991. Federal structures remained the main interlocutors for foreign acters, and Marković was in that sense a favourite in the West, but their/his leverages of power were quickly disappearing.

The last agreement reached between the IMF and Yugoslavia (March 1990) for over 1 billion dollars for the support of the reforms of price policies, wage control and dinar's exchange rate, was used only up to 1/3 as the internal political struggle also meant that hardly any compromises could be made amongst the republics which had to sign-off most of the FEC policies.[127]

The last meeting between two heads of state – Bush and in Yugoslav case Borisav Jović, rotating chairman of the Presidency, from Serbia, happened in New York on 1 October 1990. Bush opened the talk reiterating the US support for "united Yugoslavia" and "government's political and economic reform", brushing aside as irrelevant his short meeting with newly elected Croatian president Franjo Tuđman who was touring the US in September. He also raised the issue of violations of individual human rights in Yugoslavia, especially in Kosovo, while noting that the relations of "one group over another [...] that is not the business of the US". Jović thanked him for the "staunch stand in support of Yugoslavia". He then spoke favourable of the economic results in 1990 in terms of stabilized balance of payments, currency, servicing of foreign debt, but also spoke of the problems, that the industry was 10% on an annual basis due to the relaxation of import policies, and the effects of Iraq's war in Kuwait. On political topics he elaborated how the multiparty system mostly led to national-based parties with rising separatism in republics and that the disintegrative pressure is growing. On Bush's question what can America do more, "have we been too quiet?" [in overall support to Yugoslavia], Jović answered that "the U.S. spoke clearly about a unified Yugoslavia but didn't distinguish democratic processes and disintegrative processes [...] [In Kosovo] we say yes to human rights, no to secession. In Slovenia, we say yes for democracy but not secession". Jović used the opportunity to ask for a high-level visit from the US to Yugoslavia, either from Bush or Baker. And at the end, on the issue of Yugoslav repair works on Iraqi MiG fighters per standing contract, Jović said that "everything is frozen, and nothing will happen on this contract".[128]

In November 1990, Bush signed into law on foreign aid for 1991 with a congressional amendment (the Nickles amendment) that barred bilateral

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127 György Simon, Jr., op. cit., p. 96.

128 "Meeting with President Jovic of Yugoslavia, Memorandum of Conversation", October 1, 1990, New York, George H. W. Bush Presidential Library and Museum. Available at: https://bush41library.tamu.edu/files/memcons-telcons/1990-10-01--Jovic.pdf (Accessed on 20 December 2022).

assistance to Yugoslavia and requiring U.S. representatives to oppose loans to Yugoslavia by international financial institutions unless all six of the country's republics had held free and fair multiparty elections and none was engaged in a pattern of gross violations of human rights.[129] In a way, the Washington was sending two different messages. One was from the White House and State Department that they supported the integrity of Yugoslavia and following it up with the desire for democratization of the whole country. The second was from Congress, which started to distinguish between six of the republics and build bridges with those that, in the view of Congress, took the path of internal de-communization and 'soft' relationship with other republics, without much reference to whether through such processes Yugoslavia could survive as a country.

Seven months after conversation with Jović, and in vastly different circumstances (Slovenian independence referendum has gone through in December 1990, conflict between Croatian police units and armed Serbs has started in earnest, federal institutions have been almost completely pushed aside while the YPA became increasingly involved in the internal combat, the Presidency itself failed to rotate the chairmanship on May 15 etc) Bush had a phone conversation with Marković on 20 May 1991. He was offering public political support for Marković: "If you are able to strengthen your role and fill this dangerous void of authority through constitutional means, you will have our support". Marković was thankful and was keen to present the state of affairs as under control with the crisis still ongoing: "we are continuing discussions in an effort to find a constitutional, democratic resolution of the problems facing us". Bush was talking about the ways that international community could help in that regard, while Marković reiterated the call for Baker's visit. He then raised the issue of the Nickles amendment, he lobbied that at least the US green-lights the arrival of the IMF mission for discussion on the new stand-by arrangement, but Bush was non-comital and blamed Serbia for violations of human rights of Albanians in Kosovo and Metohija province for allowing the provision to remain in effect.[130]

James Baker's short visit to Yugoslavia – decided upon in the last minute and as a detour of his trip to Albania after a CSCE summit in Berlin – on June 21 was a quick succession of meetings with federal and republic's officials, and with a formal nod to the preservation of unity through a message that

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129 Human Rights Watch, *Report on Yugoslavia 1992*. Available at: https://www.hrw.org/reports/1992/WR92/HSW-08.htm (Accessed on 20 December 2022).

130 "Telephone Call to Prime Minister Ante Markovic of Yugoslavia", Memorandum of Telephone Conversation, May 20, 1991, George H. W. Bush Presidential Library and Museum. Available at: https://bush41library.tamu.edu/files/memcons-telcons/1991-05-20--Markovic.pdf (Accessed on 20 December 2022).

the USA (and CSCE for that matter) "would assist Yugoslavia in its efforts to transform itself economically and politically if it did so peacefully and consensually. But to complement this positive message, we also needed to deliver a negative signal, to try to shock the various republic leaders into accepting two basic realities: that they needed to negotiate their differences, not act unilaterally; and that under no circumstances would the international community tolerate the use of force".[131] Nothing really came out of this visit. It was, in effect, a show of loss of interest, and with no hard preferences with committed political and economic resources at the moment of Yugoslavia terminal phase.

## CONCLUSION

Looking holistically at bilateral relation in the 1945–1992 period, we could divide it into three very uneven periods. In 1945–1948 relations were based on ideological animosity that was the staple of the Cold War in Europe. The Soviet-Yugoslav break in 1948 had fundamentally changed that, and all the way up to the 1990/91 period we can look as a single but long and winding road of fairly close, cordial and productive relations of two countries with vastly different political systems. We tried to trace the path of economic relations, rooted in various civilian and military aid programs in 1950s and partly 1960s, and their evolution into more market-oriented relations that were, nevertheless, anchored in wider political understanding.

The US aid was instrumental in relieving the dire situation in Yugoslavia in 1950s, offering credible military means of self-defence and critically important food imports, technology transfers and direct monetary support. The 1950s were the era of highest growth of Yugoslav economy, partly because of the very low base but surely due to the US aid.

The US was instrumental in aiding economic reforms in 1960s, and in humanitarian relief after the Skopje earthquake in 1963. Two countries found a way to evolve their relationship with respect to their changing interests, with some hick-ups along the way but never with a break in relations. For long time, the fundamentals stayed the same: Yugoslavia was not a conduit of Soviet power directly, as that power ended on Danube and not on the Adriatic, and the importance of Western markets as sources of finance and technology for Yugoslavia was always clear to Belgrade.

Despite those strategic bonds between the US foreign policy and Yugoslavia's position, as a communist country Yugoslavia was clearly on the

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131 James A. Baker with Thomas M. DeFrank, *The politics of diplomacy: revolution, war and peace, 1989–1992*, G. P. Putnam's Sons, New York, 1995, p. 479.

losing side of the economic competition between two systems that produced ever more visible results in the 1980s. And its overall economic path since the 1960s was a only a variation of the broader processes in European communist economies. Low efficiency of domestic investment – a systemic issue for both Yugoslav self-management and East European state-managed economy – from both foreign and domestic sources, slow and structurally underdeveloped exports that did not increase Yugoslav's trade with the globalizing economy, rising unemployment (over 15% in a political system that promised permanent full employment as a feature of the communist rule), and the external factors – two oil shocks and a sharp rise in interest rates of foreign loans, had, in hindsight, a crippling effect on the Eurocommunism and Yugoslavia as well.

Four federal cabinets presided over the decade of crisis in the 1980s, through which only foreign financial aid in forms of loans and debt restructuring have kept the country solvent. And successively, these cabinets faced increasing domestic political challenges across the spectrum: ethno-nationalism, challenges to constitutional order (democratic requests for free speech and political organizations apart from the communist party, Serbia's decade-long complaints about its own constitutional arrangements with its two province), party apparatus' monumental difficulty to find within itself a stable majority for even modest reforms.

The end of Cold War spelled the end for socialist Yugoslavia too. Eventually, the country as a whole could not make a turn towards democracy and capitalism and fell out of the emerging European mainstream that was so strongly shaped by the United States.

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