



In pursuit of Stability

Yugoslavia and Western European Economic
Integration, 1948–1970

Ivan Obadić

Thesis submitted for assessment with a view to
obtaining the degree of Doctor of History and Civilization
of the European University Institute

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European University Institute
Department of History and Civilization

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9 June 2016,



To Marina, Luna and Laura

Abstract

This thesis examines the origins and evolution of Yugoslav policy towards Western European integration from the early 1950s until the signing of the first Yugoslav–EEC Trade Agreement in 1970. It examines the emerging role of Western Europe in the Yugoslav foreign and internal politics within the larger context of the Cold War and development of European integration. Increased trade relations with the EEC and the domestic introduction of the 1965 Economic Reform proved vital in persuading Belgrade to become the first socialist country to establish diplomatic and trade relations with the Community in 1968. The thesis argues that these relations became of increasing relevance to the economic and, ultimately, political stability of Yugoslavia.

Besides the basic foreign (trade) policy concepts towards the EEC, this study focuses on the perceptions of the Western European integration process among the political elite by addressing the following research questions: How did Yugoslav policymakers react to the Western European integration process? What impact did the success of the EEC have on Yugoslav foreign policy and internal differences among the political elite? In what way did the League of Communists of Yugoslavia rationalize their cooperation with the EEC? What did it mean for the internal coherence of the LCY and for Yugoslavia's pronounced cooperation with the developing countries? The overarching question is how and why already in the 1960s the EEC became such an important external factor, crucial for the economic development and stability of Yugoslavia. By analysing the complex interaction between the external factors and internal dynamics of Yugoslavia and their impact on Belgrade's policy towards the EEC, this study provides an explanation of the underlying long-term structural problems of the economy that determined the Yugoslav diplomatic and economic responses to the creation and evolution of the EEC until the breakup of the country.

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List of Abbreviations

CAP – Common Agricultural Policy

COMECON – Council for Mutual Economic Assistance

COMINFORM – Communist Information Bureau

COREPER – Permanent Representatives Committee (Comité des représentants permanents)

EC – European Community

ECE – United Nations Economic Commission for Europe

EDC – European Defence Community

ECSC – European Coal and Steel Community

EEC – European Economic Community

EFTA – European Free Trade Association

EPA – European Productivity Agency

EPC – European Political Cooperation

EPU – European Payments Union

ERP – European Recovery Program

EMA – European Monetary Agreement

FEC – Federal Executive Council (Yugoslav federal government)

FTA – Free Trade Area

GATT – General Agreement on Tariffs and Trade

GDR – German Democratic Republic

GSP – Generalised Scheme of Preferences

LCY CC – Central Committee (CC) of the League of Communists of Yugoslavia (LCY)

MFN – most favoured nation clause

NAM – Non-Aligned Movement

NATO – North Atlantic Treaty Organization

UDBA – The State Security Administration (Yugoslav secret police)

OEEC – Organisation for European Economic Cooperation

OECD – Organisation for Economic Co-operation and Development

UN – United Nations

UNCTAD – United Nations Conference on Trade and Development

US – United States of America

WEU – Western European Union

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Introduction

On Monday 16 December 1991, the Foreign Ministers of the European Community (EC) member states met at an extraordinary European Political Cooperation meeting in Brussels to discuss the troubling issue of recognition of Croatia and Slovenia. Six months earlier, European political leaders had enthusiastically decided to assume responsibility for mediating between the conflicting Yugoslav republics. Europe's newly discovered assertiveness in international relations, in the immediate aftermath of the end of the Cold War, was most clearly expressed by Jacques Poos, the Foreign Minister of Luxembourg, who went to Belgrade as a member of the EC troika after the explosion of violence in Slovenia in June 1991, and underlined that "This is the hour of Europe – not the hour of the Americans (...) If one problem can be solved by the Europeans, it is the Yugoslav problem. This is a European country, and it is not up to the Americans. It is not up to anyone else."¹

By December 1991, however, the European Community suffered a complete failure to mediate a peaceful solution to the Yugoslav crisis, to prevent instability on its south-eastern borders and to speak with one voice in the international arena. Just as European political leaders were negotiating further deepening and widening of the political, economic and security structures of post-Cold War Europe, violence in Yugoslavia dramatically escalated. The tragic fate of Vukovar and attacks on Dubrovnik shattered the hope for stability in Europe and vision of a New World Order. Furthermore, the aggressive acts and atrocities of the Serb-dominated Yugoslav army in Croatia broke down the European consensus on the policy of keeping Yugoslavia together. Major Western European countries – Germany, Britain and France – were deeply divided over the appropriate course of action. The united Germany, unlike France and the United Kingdom, became a firm supporter of Slovenian and Croatian appeals for international recognition of their independence.

The deadlock among Western European powers was finally resolved at the December meeting in Brussels when the German position prevailed over the concerns of the British and French government, but only after a difficult all-night discussion. In the run-up to the meeting the French Foreign Minister, Roland Dumas, commented to President Mitterrand that "for the

¹ As quoted in Mark Almond, *Europe's Backyard War: The War in the Balkans* (London: Heinman, 1994), 45.

Twelve, and especially for France and Germany, to split over Balkans seems to be much more dangerous than the risk of hastening the conflagration in former Yugoslavia. For Yugoslavia to split up is tragic; for the Community to do so would be catastrophic.”² At the meeting, the Community accepted the disintegration of Yugoslavia as a *fait accompli* and decided to recognize the independence of former Yugoslav republics subject to certain conditions.

The decision on Yugoslavia made on 16 December 1991 was a final act in the long evolving tragedy of the breakup of the Yugoslav Federation. By January 1992, a unified southern Slavic state ceased to exist. The decision also marked a catastrophic end of the debut performance of the emerging European foreign and security policy. In the following years, the UN, NATO, and other international organizations became entangled in solving the escalation of the Balkan wars and pacifying the region. The EU, on the other hand, became from the mid-1990s the most significant actor to stabilize the region in the long-run. As Hans-Dieter Genscher, West Germany's longest-serving foreign minister, underlined in 1995, “for the stability in the region of former Yugoslavia it was important that the European Community offered membership to all the republics (...) because only in this larger European framework there was a chance for long-term peace in Europe.”³

The Yugoslav crisis, the disintegration of the country in 1991/92 and the wars that followed in the 1990s generated a plethora of studies in social sciences and humanities. Scholars have examined different aspects of the violent history of the region by focusing on various actors and topics. These include among other, the causes and consequences of the dissolution of Yugoslavia, the Western policies on how to address the crisis of 1991 and stabilize the region in the later period, and the work of the International Criminal Tribunal for the former Yugoslavia in Hague (ICTY). Besides evaluating historical burdens, ethnic tensions, territorial disagreements and other controversies in the Yugoslav successor states, a number of studies focused on the role of the EC/EU as one of the key international actors in the region in the 1990s, especially on its confused reaction to the dissolution of Yugoslavia.

One of the most influential accounts of the involvement of the Western powers’ and the EC in the breakup of Yugoslavia has been provided by Josip Glaurdić. In his 2011 landmark study, Glaurdić differentiates three approaches that have dominated interpretations

² As quoted in Simon Nutall, *European Foreign Policy* (Oxford: Oxford University Press, 2000), 222.

³ DYTDA, July 1994-July 1995, File 3/25, Interview with Hans Dietrich-Genscher, 9.

of Western policy towards the collapse of Yugoslavia. The first interpretation argues that the Yugoslav crisis supposedly developed suddenly, at the moment when the Western governments were preoccupied with the fall of the Iron Curtain and the instability in the former Eastern bloc as well as the crisis in the Middle East. Distracted by these events and unable to respond to the emerging Yugoslav crisis, the response of the West was one of “unity in frustration”.⁴ The second view, which was most eloquently presented by James Gow in his book *Triumph of the Lack of Will*,⁵ contends that the Western governments correctly understood the situation in Yugoslavia, but had no political will to intervene militarily and prevent the Balkan wars. The third interpretation claims that political and religious elites in Austria, Italy, the Vatican, the US, and – most importantly – recently united Germany, which was now striving to re-emerge as a power, deliberately destabilized Yugoslavia and encouraged the break-up of Yugoslavia.⁶

By placing the demise of Yugoslavia in a broader context, including the rise of Milošević to power in 1987, the end of the Cold War and transformations of the global international and security order, Glaurdić argues that the Western powers continued to support the idea of a united Yugoslavia and therefore were willing to appease Milošević in order to preserve the stability of the Balkan region and, more importantly, to avoid setting an example for the dissolution of the Soviet Union. The reunited Germany challenged this policy after the outbreak of the war, as at that point German policymakers came to understand that Milošević was not the solution, but the main threat to the stability of the region.

The scholarship on the relations between the European Community and Yugoslavia has been narrowly focused on Europe’s policy towards the break-up of the country, and with the notable exception of Glaurdić’s study, have focused almost exclusively on the period when the political climate reached boiling point. In 2004, Rafael Biermann straightforwardly remarked that “almost all the publications (...) up until today start essentially with the visits of April/May 1991 [by Jacques Delors and Jacques Santer] as if nothing had happened before.”⁷

⁴ Josip Glaurdić, *Hour of Europe: Western Powers and the Breakup of Yugoslavia* (New Haven: Yale University Press, 2011), 4.

⁵ James Gow, *Triumph of the Lack of Will: International Diplomacy and the Yugoslav War* (New York: Columbia University Press, 1997).

⁶ Glaurdić, *Hour of Europe*, 4-6.

⁷ Rafael Bierman, “Back to the Roots. The European Community and the Dissolution of Yugoslavia. Policies under the Impact of Global Sea-Change,” *Journal of European Integration* 10, no. 1 (2004): 29.

In contrast to the rich literature that exists on EC policy towards the dissolution of Yugoslavia, the story of Yugoslavia's relations with the Community during the Cold War still remains largely uncharted territory for historians. Most studies on Yugoslav–EEC relations date from the late 1980s when the issue of the European orientation of Yugoslavia emerged as one of the key debates in the domestic political arena. These were written for the most part by Yugoslav political scientists and economists.⁸ Although these studies still provide some insight into the issues of interest for this dissertation, they are limited in scope and predominantly focused on the economic aspects of the Yugoslav–EEC relationship. Only a few authors have examined the wider implications of this relationship. In particular, Panos Tsakaloyannis drew attention to the interplay between politics and economics in the Yugoslav–EEC relationship, while Radovan Vukadinović shed light on internal disputes in the Yugoslav establishment in the late 1980s regarding Yugoslavia's cooperation with the European Community.⁹

Two monographs have been written on this topic recently. Branislav Radeljić's 2012 study has also concentrated on the role that the EEC played in the collapse of Yugoslavia but his book touched upon the Yugoslav–EEC relations between the 1950s and the beginning of the 1990s as well.¹⁰ Radeljić's analysis, however, has failed to provide a credible account of this relationship. His main objective was to illustrate the role of the European Community in the dissolution of the Yugoslav federation. His general argument is that the Community disregarded the political situation in Yugoslavia in the 1970s and 1980s and therefore was unprepared to deal with the crisis. The EEC's disinterest in the Yugoslav political turmoil in his view opened a way for non-state actors, such as the Slovenian and Croatian diaspora organizations, international media and the Catholic Church, to persuade the EEC to recognize the independence of Croatia and Slovenia.

Radeljić's portrayal of relations between the EEC and Yugoslavia from the 1950s onwards relies heavily on a retrospective account of Community policy towards the Yugoslav crisis in 1991. This approach fails to analyse some of the main aspects of Yugoslavia's

⁸ E.g. Mihajlo Aćimović, Ivo Fabinc, Oskar Kovač, Aleksandar Goldštajn, Mihailo Jovanović, Vlatko Mileta, Radovan Vukadinović, etc. There are also two useful accounts by Western scholars: Patrick F. R. Artisien and Stephen Holt, "Yugoslavia and the EEC in the 1970s," *Journal of Common Market Studies* 18, no. 4 (1980): 355-369; Stephen Holt and Ken Stapleton, "Yugoslavia and the European Economic Community 1958-1970", *Journal of Common Market Studies* 10, no. 1 (1971): 47-57.

⁹ Panos Tsakaloyannis, "The Politics and Economics of EEC-Yugoslav relations", *Journal of European Integration* 5, no. 1 (1981): 29-52; Radovan Vukadinović, „Evropski izazovi i jugoslavenske opcije“, *Politička misao* 17, no. 1 (1990): 88-106.

¹⁰ Branislav Radeljić, *Europe and the Collapse of Yugoslavia* (London: I.B. Tauris, 2012).

relations with the EEC, such as the role of the 1965 Economic Reform or conflicts within the Yugoslav political establishment concerning policy towards the EEC, and as a result overlooks the economic and political rationale of this relationship. Furthermore, it lacks the Cold War context and does not account for the changing nature of the European Community in this period, which was of central importance for articulating the modalities of the Yugoslavia–EEC relations.

While the main aim of Radeljić’s teleological study is to reinforce the narrative that Western powers, together with Slovenia and Croatia, played a crucial role in Yugoslavia’s breakup, Benedetto Zaccaria has taken a different approach by focusing on the political considerations in the formulation of EEC’s policies towards Yugoslavia in the period between 1968 and 1980.¹¹ Zaccaria argues that since the late 1960s, the Community’s policy towards Yugoslavia was designed to constrain the increasing influence of the Soviet Union in the Balkans and to foster détente in Europe. By placing the EEC’s Yugoslav policy within the broader Cold War and European integration context, Zaccaria supports the argument presented in the recent European integration history literature – that the European Community played a much more significant and independent role in the international arena in the early 1970s and that it was an effective instrument of stabilization policies in Southern Europe during the 1970s.¹²

The starting point of this dissertation is the conviction that the story of Yugoslav relations with the EEC can only be understood in the broader Cold War context. In order to gain a detailed understanding of this relationship, the dissertation focuses on the Yugoslav policy towards the broader process of Western European integration in the 1950s and 1960s. Recent developments in the field of European integration history have underlined that an important dimension – the policies and views of the Central-Eastern European countries towards the pan-European cooperation in the framework of détente – has remained

¹¹ Benedetto Zaccaria, *The EEC’s Yugoslav Policy in Cold War Europe, 1968-1980* (London: Palgrave Macmillan, 2016).

¹² Angela Romano, *From Détente in Europe to European Détente: How the West Shaped the Helsinki CSCE*, (Bruxelles: P.I.E. Peter Lang, 2009); Antonio Varsori, “Crisis and Stabilization in Southern Europe during the 1970s: Western Strategy, European instruments,” *Journal of European Integration History* 15, no. 1 (2009): 5-14; Eirini Karamouzi, *Greece, the EEC and the Cold War 1974-1979* (Basingstoke: Palgrave Macmillan, 2014); Marie Julie Chenard. *The European Community’s Opening to the People’s Republic of China, 1969-1979: Internal Decision-Making on External Relations* (PhD Thesis. The London School of Economic and Political Science, 2012).

unexplored in European historiography.¹³ Certainly, Yugoslav policy towards Western European integration in the context of increased interaction between the socialist countries and Western Europe is an important subject of study, particularly taking into account Yugoslavia's unique position in Europe as a communist country acting as a buffer between the two blocs. Hence, by explaining the formulation and evolution of the Yugoslav policy towards Western European integration and the EEC in particular, this research contributes to a more complete picture of the overall relationships and approaches of the socialist countries towards West European integration.

Thus, this study lies at the intersection of Yugoslav history, the history of European integration and Cold War history, but its principal focus is Yugoslav foreign policy. There is a large body of literature which deals with this subject, especially for the early Cold War period and the formulation of the policy of equidistance and non-alignment.¹⁴ Thus far, the historiography on Yugoslavia's foreign policy in the later period has been limited. Only few studies have addressed the evolution of Yugoslav foreign policy between the early 1960s and late 1980s, and most of them have focused on the 1960s and examined Yugoslav relations with individual international actors, such as the US, UK, Italy, France and Germany.¹⁵ A comprehensive study by Tvrtko Jakovina was an exception in this regard, as he provided an in-depth analysis of the Yugoslav non-alignment policy throughout this period by drawing on an extensive range of sources.¹⁶

Thus, the historiography of Yugoslav foreign relations is broadly divided into two main periods: one dealing with the 1948 Tito–Stalin split and Yugoslav foreign relations in the 1950s, a period when Belgrade played a visible role in the Cold War confrontation; and second period covering the international reactions to the dissolution of the country. The period between these two points remains largely under-researched. Furthermore, apart from one well-known early collaborative study about Yugoslav–US economic relations written by

¹³ Angela Romano and Federico Romero, "European Socialist regimes facing globalisation and European co-operation: dilemmas and responses-introduction," *European Review of History* 21, no. 2 (2014): 157-164.

¹⁴ For a comprehensive literature overview see: Rinna Kullaa, *Non-Alignment and its Origins in Cold War Europe. Yugoslavia, Finland and the Soviet Challenge* (London-New York: I.B. Tauris, 2012), 5-17.

¹⁵ E.g. Dragan Bogetić, *Jugoslovensko-američki odnosi 1961-1971* (Beograd: Institut za savremenu povijest, 2012); Dušan Nećak, *'Ostpolitik' Willyja Brandta i Jugoslavija (1963.-1969.)* (Zagreb: Srednja Europa, 2015); Katarina Todić, *A Traditional Friendship? France and Yugoslavia in the Cold War World, 1944-1969* (PhD diss., McMaster University, Hamilton, 2015).

¹⁶ Tvrtko Jakovina, *Treća strana Hladnog rata* (Zagreb: Fraktura, 2011). Among the historiography of Yugoslav non-alignment policy, perhaps the most well-known work is that of Alvin Z. Rubenstein, *Yugoslavia and the Non-Aligned World* (Princeton, NJ: Princeton University Press, 1970).

John Lampe, Russell Prickett and Ljubiša Adamović, the existing scholarship has not dealt with Yugoslav foreign trade relations.¹⁷

Searching for Stability

This dissertation describes and explains the Yugoslav policy towards the wider European integration process and the EEC in particular. Besides the basic foreign (trade) policy concepts towards the EEC, it focuses on the perceptions by the political elite of Western European integration by addressing the following research questions: How did Yugoslav policy-makers react to the Western European integration process? What impact did the success of the EEC have on Yugoslav foreign policy and internal differences among the political elite? In what way did the League of Communists of Yugoslavia rationalize their cooperation with the EEC? What did it mean for internal coherence of the LCY and for Yugoslavia's pronounced cooperation with the developing countries? How did they envisage the position of Yugoslavia in a divided Europe and what was their vision of pan-European cooperation?

The objective of this study is to explain why Western European integration – and in particular the EEC – was already by the 1960s such an important external factor, crucial for the economic development and stability of the country. The roots of Yugoslav economic difficulties were similar to those in other socialist countries. Immediately after the end of the war, the Communist Party of Yugoslavia began rapid economic modernization and transformation of the Yugoslav society. The Party policy was driven by ideological and political factors. Especially following the break with the Soviet Union, the quest for political legitimacy based on economic growth played an important motive in the formulation of the Yugoslav developmental policy. Throughout the 1950s Yugoslavia, supported by substantial American economic assistance, performed at very high rates of economic growth. Nevertheless, the extensive growth strategy that the government pursued in this period came at the price of low efficiency, lack of technological dynamism, diminished presence of the country's exports in the international market, growing inflation, and import dependency for industry. By the early 1960s the economic model of extensive economic expansion reached its limits. The 1961/62 economic crisis was a turning point. Until then it was widely believed

¹⁷ John Lampe, Russell Prickett and Ljubiša Adamović, *Američko-jugoslavenski ekonomski odnosi posle Drugog svetskog rata* (Beograd: NIP Radnička Štampa, 1990).

that socialist planned economies were stable, or at least not subject to cyclical fluctuations as in the capitalist economies.¹⁸ The crisis, however, revealed the structural imbalances of the Yugoslav economy.¹⁹

Autarkic economic development based on extensive growth was responsible for severe and deepening economic difficulties. The underlying problem was the domestic shortage of capital goods and industry's import dependency. By then it was clear that the new industrial structure built up during the 1950s was heavily dependent on importing inputs of components and semi-finished goods from Western European countries, in the first place West Germany and Italy. Such import-dependent industrialization resulted in a chronic trade and balance of payments deficit which destabilized the economy and became major impediments to economic growth. The situation was made even worse by the pursuit of too ambitious worldwide commercial strategy from the mid-1950s aiming to strengthen the economic independence of the country, but which was well beyond the Yugoslav economic and financial capacity to carry it through. Finally, the end of substantial US economic aid by the early 1960s – vital for maintaining a high rate of economic growth and securing economic and social stability – further complicated the Yugoslav economic situation.

Thus, at the beginning of the 1960s the issue of external economic instability became a fundamental economic (and political) problem. Especially the impending increase in foreign debt payments to the West added to the strain on the balance of payments and thus made Yugoslav policies untenable. The growing awareness of failing economic and foreign trade policy prompted calls for comprehensive economic reform aimed at addressing structural misalignments in the Yugoslav economy. The policy of economic modernization based on increased productivity was in the view of liberal reformers essential to sustain economic, but also political and social stability of the country. This was even more important as at the time the leadership envisaged economic growth as the solution to the increasing social and regional differences between the republics which reinforced economic rivalries and created the sense of inequality, resulting in economic nationalism. A good illustration of this belief was offered by Milka Planinc, the first female Yugoslav Prime Minister (1982–

¹⁸ Božo Repe and Jože Prinčič, *Pred časom. Portret Staneta Kavčiča* (Ljubljana: Modrijan založba, 2009), 61–62.

¹⁹ After the economic crisis, in the period from 1962 to 1966, the Belgrade Institute of Economic Studies headed by Branko Horvat established that there were unyielding systematic components in the fluctuations of the Yugoslav economy. Business cycles in Yugoslavia had four distinct phases that could be described as dynamic growth, stagnation, stabilization, and inflation. Branko Horvat, *Business Cycles in Yugoslavia* (White Plains, N.Y.: International Arts and Sciences Press, 1971).

1986), who in an interview highlighted that in the 1960s “We all believed that, in principle, the national question had been resolved and that the misunderstandings we occasionally had would decrease as economic development progressed.”²⁰

The 1965 Economic Reform aimed to enhance the productivity of the economy by introducing the free-market mechanisms and decentralizing the economic system. The success of the reform relied upon the transformation of the Yugoslav economy from a closed into an open economy. A much wider incorporation in international trade and an export-oriented strategy as an important engine of economic growth, crucial in tackling the problem of disequilibrium in the balance of payments, represented two of the basic premises of the policy of stabilization. Indeed, for liberal reformers foreign trade, especially trading relations with the developed countries, played a central role in achieving macroeconomic stability. As a result, the Economic Reform brought Yugoslavia closer to Western Europe.

This dissertation highlights the importance of the Yugoslav relations with the EEC for the economic development of the country and ultimately for the economic and political stability of the regime. While politically Western Europe did not play such a prominent role in Yugoslav foreign policy, Western European countries – in the first place West Germany and Italy – were the country’s major trading and financial partners crucial for its fast-paced industrialization as major exporters of capital goods. Moreover, the weakening of economic relations with the US from the early 1960s increased Yugoslav dependence on Western Europe. As a consequence, the stability of trading relations with Western European countries became even more significant for the Yugoslav authorities. The regionalization of Western European trade and the emergence of the EEC from the early 1960s as a powerful actor in the international economy had a significant impact on Belgrade’s policy towards Western European integration. The crucial question was how to protect the country’s economic interests given that relations with Western Europe were detrimental to Yugoslav foreign trade. Therefore, establishing cooperation with the Western European regional economic organizations, and primarily with the EEC, would become one of the main goals of Yugoslav foreign (trade) policy.

In order to address these questions the dissertation traces the development of the relationship between Yugoslavia and Western European integration projects from the early

²⁰ Dejan Jović, *Yugoslavia: a state that withered away* (West Lafayette, Ind.: Purdue University Press, 2009), 137.

1950s until the signing of the first Yugoslav–EEC Trade Agreement in 1970. It ties together several threads: the disagreements among the EEC member states and the emerging role of the Commission as an institution that speaks for all member states on the one hand, and bifurcations within the ranks of Yugoslav communists, as well as domestic political, economic and social developments in Yugoslavia with its foreign policy, on the other. The study examines the emerging role of Western Europe in Yugoslav foreign and internal politics within the larger context of the Cold War and development of European integration. Furthermore, it analyses the complex interaction between the external factors and internal dynamics of Yugoslavia and their impact on Yugoslavia's EEC's policy in order to provide an explanation of the underlying long-term structural problems of the economy that had determined Yugoslav policy responses to the creation and evolution of the EEC until the breakup of the country.

Structural Roadmap

The overall structure of this study comprises three chapters. The narrative of the dissertation is largely chronological. The structure of the thesis answers to three main questions: 1) how did the Yugoslav authorities formulate their views and policies towards the early Western European integration process; 2) why did their position change until the mid-1960s, and finally; 3) how did Belgrade manage to achieve an arrangement with the most important trading bloc – the EEC?

The opening chapter, *Yugoslavia in the Postwar International (Economic) Order: From Isolation to Integration (1948–1961)* explores the origins and development of the Yugoslav policy towards the EEC in the 1950s within the wider context of Belgrade's foreign (trade) policies. The first part of this chapter highlights the political limits of Yugoslav relations with the Western European integration process by examining Belgrade policies towards the European Defence Community (EDC) and Council of Europe. The second part analyze Belgrade reaction to emergence of European regional economic organizations. Here Yugoslav relations with the OEEC are closely examined, as well as the first reactions to creation of the EEC and EFTA. The third part explains the influence of ideology on Yugoslav attitudes towards European integration. It also pinpoints an alternative approach towards functional cooperation with the regional trading blocs advocated by some Yugoslav economists.

The second chapter, *Yugoslavia at the Crossroads (1962–1964)* concentrates on the period of economic and political crisis in the early 1960s. By exposing the implications of Yugoslavia's deteriorating international economic position and internal economic crisis, it underlines what kind of impact the success of the EEC had on the Yugoslav policymakers. The second and third parts of the chapter explain the formulation of the Yugoslav policy towards the EEC within the wider framework of Belgrade relations with the Soviet Union and Third World countries. This section also covers the first unsuccessful attempt of the Yugoslav diplomacy to establish relations with the EEC, and the policies which were pursued in the aftermath of this failure. Finally, the last part captures the core of the struggle between the liberal and conservative faction of the Party regarding closer economic cooperation with Western Europe and the EEC, and explains why the liberal faction prevailed in this clash.

The final chapter, *Difficult Road to a Partnership (1965-1970)* is divided into two parts. The first section analyses the liberal economic platform and the formulation of a foreign trade development strategy that articulated policy of increased economic cooperation with Western European countries and the EEC. The second part examines the fruitless attempts of the Yugoslav government to reach a trading arrangement with the EEC from 1965 onwards. This part highlights the importance of Cold War considerations following the Warsaw Pact invasion of Czechoslovakia in 1968 on formulation of the policy of the West towards Yugoslavia. Within the broader framework of Western policies towards Yugoslavia following the invasion, this part examines the formulation of the EEC policy towards Belgrade and the path towards the first Yugoslav–EEC Trade Agreement which marked the new phase in Belgrade's relations with the Community.

Sources

To answer these questions, the thesis is based on research in several archival collections from the Belgrade archives – the Archives of the Foreign Ministry of Serbia and the Yugoslav Archives – and the Historical Archives of the European Union. Besides, by conducting several interviews with relevant actors from former Yugoslavia, this study offers insight into the perspectives of historical actors and the background on important events in the development of Yugoslav–EEC relations. Since the dissertation is focused on Yugoslav policy towards the EEC, it is primarily based on Yugoslav sources. Among them, this study

has primarily benefited from the collections in the Archives of the Foreign Ministry of Serbia which holds the Yugoslav diplomatic documents as the Foreign Ministry played a crucial role in formulating Belgrade's policy towards the EEC.

Other important Yugoslav sources are the holdings of the federal government – the Federal Executive Committee (FEC). The federal government archives are important for several reasons. First and most obvious, is that the economy was a major concern of the federal government. Therefore, the federal government produced a large number of economic data, analysis and reports that other institutions, including the Foreign Ministry, used in examining and formulating the Yugoslav policy towards the EEC. Second, the federal government coordinated the activities of a number of federal institutions dealing with the EEC. In that regard the role of the FEC Committee for Economic Relations with Foreign Countries was particularly important as this body coordinated the work of different institutions such as the Institute for Productivity, the Institute for Economic Planning, the Institute of International Politics and Economics. Further Yugoslav sources, the Party's and Tito's archives, offer insight on the decision-making process at the highest levels of the Yugoslav government. Although the coverage on the Yugoslav–EEC relations in them is limited, the information they provide is in most cases crucial for understanding the overall Yugoslav policy towards the Community. Besides these sources, the published speeches by Tito were very valuable for this research as well.

Regarding the Western sources, of particular importance are the collections in the Historical Archive of the European Union in Florence. Here the research focused on the documents from the European Commission and the Council. Besides that, in order to understand the wider significance of the EEC in Western policies towards Yugoslavia, this study examines the West German, French and US published foreign policy documents. The study also benefits from the Foreign Office documents collected in the British National Archives. Together with the published CIA reports on Yugoslavia, these documents provide a valuable insight on the formulation of the Western policies towards Yugoslavia in the examined period.

Chapter I

Yugoslavia in the Postwar International (Economic) Order: From Isolation to Integration (1948–1961)

1.1. Between the Blocs: Yugoslavia, the Cold War and the Early European Integration Process

The radical foreign policy changes in the early period of the Cold War had a decisive impact on Yugoslav visions of, and policies towards, Western European integration. Until 1948, Yugoslavia was the most ardent Soviet ally. Immediately after the end of the war, the Yugoslav Communist Party began to introduce the Soviet political, economic, legal and social model. In the period between 1945 and 1948, the Party abolished the multi-party system and private ownership, nationalized industry and inaugurated a Soviet-style command economy. The accompanying oppressive measures against the opposition were more brutal than in most other Eastern European satellite countries.²¹ Along with the sovietization of Yugoslav society, the economy and the political system, Yugoslavia played a prominent role among the Eastern European countries in the formation of the unified Communist bloc and vigorously argued for the deepening of the Eastern European integration process.

The announcement of the Truman Doctrine and the launch of the Marshall Plan in 1947 (officially the European Recovery Program or ERP) were major turning points in the division of Europe and development of the Cold War.²² The initial Soviet reaction towards the Marshall Plan was restrained. Only when it became apparent that the Plan would undermine the Soviet hold on Central and Eastern Europe, and after Soviet foreign minister Molotov's failure to impede it at the beginning of July 1947, did Stalin reject the Plan. Other Eastern European countries were then compelled to do the same.²³ Unsurprisingly, the

²¹ Ivo Banac, *With Stalin against Tito* (Ithaca and London: Cornell University Press, 1988), 19-21.

²² See more about the historical debate about the Cold War and its origins in: Odd Arne Westad, "The Cold War and the international history of the twentieth century," in *The Cambridge History of the Cold War, Volume I: Origins*, ed. Melvyn P. Leffler et. al. (Cambridge: Cambridge University Press, 2010), 1-19.

²³ Vladimir O. Pechatnov, "The Soviet Union and the World, 1945-1953," in *The Cambridge History of the Cold War, Volume I: Origins*, ed. Melvyn P. Leffler et. al. (Cambridge: Cambridge University Press, 2010), 104-105.

Belgrade government loyally followed Soviet policy.²⁴ On 28 July 1947, Yugoslavia notified London and Paris that it was interested in the Marshall initiative only on the condition that it “facilitate the economic reconstruction of European countries, and consolidate peaceful cooperation among nations, and if it will be based on the principles of the Charter of the UN.”²⁵ After the Soviet government had rejected the plan, Belgrade declined to take part at the Paris Conference on European Economic Cooperation.²⁶

According to Milovan Djilas (1911–1995), a Yugoslav Communist leader who was at the time widely regarded as Tito's chosen successor before becoming one of the best known political dissidents, Yugoslavia was the only Eastern European country which decisively opposed the Marshall Plan. Other Eastern European countries, especially Czechoslovakia and Poland, were in favour. Djilas stressed that the Yugoslav communist leadership based its decision primarily on ideological grounds.²⁷ Yugoslav Communists viewed the Marshall Plan as a project designed to maintain America's dominant economic and political position in the world. In order to achieve its goals, Washington had to find a way, on the one hand, to lure the United Kingdom to accept its dependence on the United States, and, on the other, to integrate Germany into the US-led Western (European) bloc directed against the Soviet Union and Eastern European communist countries.²⁸

Undoubtedly, the ideological explanation and its commitment to the Soviet Union were paramount in the decision-making process of the Belgrade government. In addition, there were also important political and economic arguments against accepting the Marshall Plan offer. Yugoslav relations with the Western powers, especially with the United States, were already strained. The Yugoslav territorial dispute with Italy over Trieste and part of the Julian region, and with Austria over the Carinthia region; conflict about unauthorized American flights over Yugoslav territory and attacks on US aircraft in 1946; and

²⁴ At the end of June and beginning of July 1947 Moscow changed its directives for the Eastern European countries about their response to the Marshall Plan three times. Norman Naimark, “The Sovietization of Eastern Europe”, in *The Cambridge History of the Cold War, Volume I: Origins*, ed. Melvyn P. Leffler et. al. (Cambridge: Cambridge University Press, 2010), 189.

²⁵ AJ KMJ, I-3-e/2, Institut za međunarodnu politiku i privredu pri Predsedništvu vlade FNRJ: Stav pojedinih zemalja prema Maršalovom planu, Beograd, 3 May 1948, 8.

²⁶ Yugoslavia was officially invited to the Paris conference by a letter from the French Embassy dated 4 July 1947. AJ KMJ, I-3-e/1, Institut za međunarodnu politiku i privredu pri Predsedništvu vlade FNRJ: Pismo ambasade Francuske – ministru inostranih poslova Stanoju Simiću u vezi sa predlogom za osnivanje organizacije za obnovu evropskih zemalja sa nacrtom organizacije, 4 July 1947, Beograd, 3 May 1948.

²⁷ Milovan Djilas, *Conversations with Stalin* (Middlesex: Penguin books, 1962), 99.

²⁸ S.P., “Maršalov plan,” *Trideset dana* 6, no. 25 (1948): 13, 16, 18-19, 21-22.

Yugoslavia's assistance to the Communist faction in the Greek civil war²⁹ altogether hugely escalated the tensions between Belgrade and the West.³⁰

Yugoslavia's economic policy also played a role in its decision to reject the Marshall Plan. Yugoslav communists, after they came to power in 1945 and stabilized their government, decided to establish a centrally-planned economy with the aim of industrializing and modernizing the country. Furthermore, they were determined to integrate Yugoslavia into the Soviet sphere.³¹ Yugoslav leadership expected Soviet assistance in achieving their ambitious economic goals, especially in the realization of the Five-year Plan of rapid industrialization, which was initiated in 1947.³² Therefore, Yugoslavia could not have accepted the Marshall Plan under any circumstances since it would alienate the Soviet Union and jeopardize the implementation of the Yugoslav economic policy.

At the same time, until early 1948 Yugoslavia played a significant role in the growing political and economic integration of the Communist bloc. Already in April 1945, Tito suggested to Stalin that the European communist parties should establish a new consultative organization along the lines of previously dissolved Comintern.³³ The following year, Tito visited Warsaw and Prague to encourage further integration among the European communist states. At the meeting with Stalin in Moscow in June, this issue was once more discussed, only this time Stalin initiated it.³⁴ However, as Swain convincingly argues, there was a profound difference between Tito and Stalin regarding what strategy international communism should adopt. While Stalin, aware of the vulnerable international position of the Soviet Union, favoured a more cautious approach in order to keep the option of postwar cooperation with the Western powers alive, Tito aspired for a more aggressive communist offensive.³⁵ At the heart of Tito's radical position was a wartime and postwar triumphant experience which had direct repercussions on the enthusiastic attitude of the Yugoslav

²⁹ Yugoslavia was entangled in Greek armed conflict already from early 1946. Nikos Marantzidis, "The Greek Civil War (1944-1949) and the International Communist System," *Journal of Cold War Studies* 15, no. 4 (2013): 30.

³⁰ Lorraine M. Lees, *Keeping Tito Afloat: The United States, Yugoslavia and the Cold War*, (University Park, PA: The Pennsylvania State University, 1997), 12-23.

³¹ Tvrtko Jakovina, *Američki komunistički saveznik: Hrvati, Titova Jugoslavija i Sjedinjene Američke Države, 1945.-1955.* (Zagreb: Profil international; Srednja Europa, 2003), 102-105; Dragan Bogetić, *Koreni jugoslovenskog opredeljenja za nesvrstanost* (Beograd: Institut za savremenu istoriju, 1990), 168.

³² Yugoslavia was the first country in the Eastern bloc to begin implementation of the five-year plan. Žarko Lazarević, "Yugoslavia: economic aspects of the position between East and West," in *Gaps in the Iron Curtain*, ed. Gertrude Enderle-Burcel et al. (Krakow: Jagiellonian University Press, 2009), 219.

³³ Vladimir Dedijer, *Novi prilozi za biografiju Josipa Broza Tita 3* (Zagreb: Mladost, 1980), 270.

³⁴ Dušan Bilandžić, *Hrvatska moderna povijest* (Zagreb: Golden marketing, 1999), 209-210; Milovan Djilas, *Rise and Fall* (London: Macmillan London Limited, 1985), 133.

³⁵ Geoffrey Swain, "The Cominform: Tito's International?," *The Historical Journal* 35, no. 3 (1992): 641-657.

Communist leadership, their profound commitment to Marxist orthodoxy, unfeigned belief in the strength and might of the Soviet Union and its Red Army, and ultimately the belief in the inevitable victory of communism.³⁶

In September 1947, at a conference in Szklarska Poręba in Poland, Communist party leaders of the Soviet Union, France, Italy, Czechoslovakia, Poland, Hungary, Bulgaria, Romania and Yugoslavia founded the Cominform (also known, especially in Yugoslavia, as *Informbiro*). Establishment of the Cominform marked a change in the Soviet policy towards Eastern Europe and the Western allies.³⁷ The Soviet shift towards confrontation with the West was Moscow's response to the Marshall Plan and the Truman Doctrine. The Soviet leadership sought to prevent the United States from obtaining any economic or political advantages through the implementation of the Plan. Therefore, the Kremlin tried, on the one hand, to disrupt its implementation, and, on the other, to consolidate its control over Eastern Europe.³⁸ Besides political unification and intensified sovietization of the region, the Soviet Union began to integrate economically Eastern Europe, first through the Molotov Plan, the Moscow version of the Marshall Plan which was implemented in 1947, and by establishing the COMECON in 1949.

Tito had long called for a more aggressive, revolutionary Soviet policy in Eastern Europe and the Balkans, and, as Banac has described, the Yugoslav leaders had considered that the "mountain had moved to Mohamed."³⁹ At the founding conference of the Cominform, the Yugoslav delegation was the only delegation that decidedly supported the Soviet initiative, while others, like the Polish delegation, had their reservations. Based on the Soviet suggestion, the Yugoslav delegates criticized the French and Italian communist parties, which were also members of the Cominform, for their opportunism and failing to seize power when they had an opportunity. Furthermore, Tito considered Stalin's decision to make Belgrade the seat of Cominform, even though the delegates had agreed on Prague, as

³⁶ In 1945 Bulgarian communist leader Dimitrov, after meeting with Tito, noted in his diary: "... We have long discussed the situation in Yugoslavia, relations with the English and Americans... General impression: The underestimation of complexity of our position and the difficulties that lie ahead of us, very conceited and arrogant, undoubtedly 'dizzy with success.'" Jože Pirjevec, *Tito i drugovi* (Zagreb: Mozaik knjiga, 2012), 244. See also Lees, *Keeping Tito Afloat*, 36.

³⁷ Vladislav M. Zubok, *A Failed Empire. The Soviet Union in the Cold War from Stalin to Gorbachev* (Chapel Hill: The University of North Carolina Press, 2007), 73.

³⁸ Pechatnov, "The Soviet Union and the World," 105. Mark Kramer argues that the establishment of Cominform was not motivated by the Marshall Plan, but by Stalin's determination to implement its harsh method of dictatorial rule over the Eastern Europe. Mark Kramer, "Stalin, Soviet Policy and the Consolidation of a Communist Bloc in Eastern Europe, 1944-1953," in *Stalinism Revisited. The Establishment of Communist Regimes in East-Central Europe*, ed. Vladimir Tismaneanu (Budapest-New York: CEU Press, 2009), 80.

³⁹ Banac, *With Stalin against Tito*, 25-28.

recognition of the Yugoslav policy.⁴⁰ However, the growing tensions between Moscow and Belgrade regarding unfair economic arrangements, military cooperation, and certain foreign policy issues increasingly concerned the Yugoslav leadership. After the exchange of letters between Moscow and Belgrade in the first months of 1948, in which Stalin accused the Yugoslav communists on the ideological ground, Tito quickly realized the severity of the situation. Finally, the Yugoslav-Soviet dispute became public when the Cominform Resolution of June 28, 1948 excommunicated the Yugoslav Communist Party from the organization.⁴¹

The Tito–Stalin split and the expulsion of Yugoslavia from the Cominform in 1948 marked a turning point in the development of Yugoslav internal and external policies in the postwar period. Soviet policy shocked Yugoslavia's leadership. It also surprised the West because Yugoslavia was viewed as Moscow's most trusted ally. After its break with the Soviet bloc, Yugoslavia found itself in an extremely complicated international position. Up until 1948, Yugoslavia was almost entirely dependent on economic, military and technical cooperation with the Soviet Union and Eastern European countries. At the same time, Belgrade was diplomatically, economically and politically isolated from the Western Bloc. Therefore, the economic blockade by the Soviet Union and its satellites, which was implemented immediately after the Cominform Resolution, and frequent Soviets subversion and border incidents coupled with intensive propaganda against Tito's regime seriously endangered Yugoslavia's economic and political stability. Besides the strong economic, political and psychological pressure, the Yugoslav leadership mostly feared the possibility of a direct Soviet military intervention against Yugoslavia. Such a threat emerged first when Stalin raised the prospect of intervention in autumn of 1949, and later following China's involvement in the Korean War in October 1950.⁴²

The struggle against Stalin and the detrimental effects of the Soviet economic boycott forced Yugoslavia to turn to the West. After 1949, Yugoslavia steadily – although cautiously – strengthened its economic, political and cultural ties with Western countries. Tito gradually adopted new policies in order to prevent Moscow from having a pretext for armed intervention. Furthermore, as long as there was a chance for accommodation and the re-

⁴⁰ Djilas, *Conversations with Stalin*, 100-103. See also Geoffrey Swain and Nigel Swain, *Eastern Europe since 1945* (Basingstoke: Palgrave Macmillan, 2003), 57-59.

⁴¹ Banac, *With Stalin against Tito*, 28-45, 117-126.

⁴² Svetozar Rajak, *Yugoslavia and the Soviet Union in the Early Cold War: Reconciliation, comradeship, confrontation, 1953-1957* (London: Routledge, 2011), 11-13.

admission of Yugoslavia into the Soviet orbit, Belgrade, on the surface at least, continued to support the Soviet foreign policy and attacked Western imperialism.

Tito also had to avoid alienating Western powers for the sake of political rapprochement. This was crucial for Yugoslav survival. The realization of economic goals, the internal stabilization of the country and the ability to resist any appreciable intensification of Soviet pressures depended on economic reorientation towards Western countries. Therefore, in 1948–49 Yugoslavia gradually adopted “a loyal and cooperative attitude” in a relationship with the Western countries, in particular with the United States.⁴³ The gradual realignment of Yugoslavia with the West was reflected in the improvement in relations with Italy and Austria on the Trieste and Carinthia issues; with Greece after the decision to cease supplying aid to Greek communist guerrillas; in the cessation of propaganda attacks against the Western governments and the shift in the Yugoslav position in the UN etc.⁴⁴ Yugoslavia’s view of the Marshall Plan also changed. Even though Tito in 1950 commented that the Yugoslav position towards the Plan had not altered, at the same time he pointed out that his government did not consider it to be as catastrophic as it had been portrayed in the Eastern bloc, since it had helped the economic recovery of countries such as Italy and France considerably.⁴⁵ By 1952, the Yugoslav position towards the Marshall Plan had entirely changed as Soviet hostilities and economic difficulties forced the country to form closer relations with the West.⁴⁶

Washington clearly understood that the strengthening of the Tito regime constituted a severe ideological, strategic and political setback to the Soviet Union. Titoist Yugoslavia was the primary ideological threat to Soviet hegemony in East Central Europe. The expulsion of the Yugoslav Communist Party from the Cominform was the first schism in the world of Communism. The Yugoslav model of socialism challenged the ideological uniformity of Stalinism and showed that Moscow’s claims to ideological supremacy could be questioned.

⁴³ Lees, *Keeping Tito Afloat*, 43–44.

⁴⁴ “From ‘national communism’ to national collapse: NIE-7,” *The Current Situation in Yugoslavia*, 21 November 1950, 7–8.

⁴⁵ “Odgovori na pitanja direktora ‘Njujork Tajmsa’ za Evropu, Borba, 09/11/1950”, in *Tito: Govori i članci* (Zagreb: Naprijed, 1959), 5: 267–268.

⁴⁶ This is most clearly evident in a comprehensive report on the Marshall Plan drafted by the Belgrade Institute of International Politics and Economy in March 1952. The report noticed “with admiration” that “never in the history of Europe the other continent or country received for a present such an enormous amount as the Marshall Plan was, which can be (...) considered as the grandest economic project in the history of mankind.” Furthermore, the report concluded that the Marshall Plan was a well thought-out plan which was crucial, conjointly with the economic cooperation among the Western European states within the framework of OEEC, for the economic revival of Europe. DA MSP RS, PA, 1952, f-67, d. 16, 417125, Maršalov plan: sistematski prikaz, Mart 1952, 82, 261, 284–285.

Strategically, Yugoslavia presented a significant asset for the Soviet Union which granted Moscow the possibility of building warm water naval bases and unrestricted access to the Mediterranean Sea, which had been a traditional goal of Russian foreign policy since the time of the Tsars. At the same time, Yugoslavia served as a formidable base for exerting Communist pressure on the Western outposts of Greece, Italy and Austria. With the loss of Yugoslavia, the strategic position of the Soviet bloc in the Balkans and the East Mediterranean was gravely weakened. On the other hand, the US Intelligence Community underlined the usefulness of Yugoslav military integration into the Western bloc, since the Yugoslav Army would significantly strengthen the South-East European flank and Western positions in the Near and the Middle East.⁴⁷

Finally, Titoist Yugoslavia served as a constant reminder to the Soviet satellite regimes that it was possible to defect from Moscow and to gain independence. US policy-makers realized that the survival of Tito's regime would be "essential to our immediate purpose of promoting disharmony in the ranks of world communism and thus weakening Kremlin's aggressive power."⁴⁸ Besides, the US did not have an alternative anti-Communist opposition in Yugoslavia strong enough to substitute the Communist government.⁴⁹ Thus, the West faced two options – either support Tito or, if the Soviets managed to overthrow him, deal with a pro-Soviet regime that would be effectively controlled by Moscow. Essentially, this would mean that the Soviet Red Army would push on to the Adriatic.⁵⁰

Following America's initial wait-and-see policy, the Truman Administration formulated a wedge strategy in 1950 in an attempt to create fissures and divisions between Moscow and its satellites. Yugoslavia was the centre-piece of this strategy, and the Administration adopted a policy of "keeping Tito afloat" by providing military and economic aid to Yugoslavia.⁵¹ The US policy was based on the assumption that "the stability of the Tito Government depends in large measure on its ability to maintain a stable economy and to make continued improvements, both in industrial and living standards."⁵² Throughout the

⁴⁷ From 'national communism' to national collapse: NIE-7, The Current Situation in Yugoslavia, 21 November 1950, 10-13. The US military shared this assessment as well. In 1951 Eisenhower wrote in his diary that the problem of European security would be resolved by the creation of a "United States of Europe" whose membership would include the NATO countries as well as "West Germany and (I think) Sweden, Spain and Yugoslavia, with Greece definitely in if Yugoslavia is," in Lees, *Keeping Tito Afloat*, 106.

⁴⁸ Allen to Acheson, 20 April 1950, FRUS, 1950, 4:1404-7; Lees, *Keeping Tito Afloat*, 83.

⁴⁹ Lees, *Keeping Tito Afloat*, 64.

⁵⁰ From 'national communism' to national collapse: NIE-7, The Current Situation in Yugoslavia, 21 November 1950, 11.

⁵¹ Lees, *Keeping Tito Afloat*, 80.

⁵² From 'national communism' to national collapse: ORE 20-50, Economic Situation in Yugoslavia, 1 September 1950, 1.

1950s, Yugoslavia received substantial financial and military aid from Western countries – particularly from the United States. Both the Truman and Eisenhower Administrations faced much criticism in the Congress for assisting a communist country.⁵³ Eventually, Yugoslav foreign policy, most prominently the rapprochement with the Soviet Union from the mid-1950s and increased commitment to the Non-Aligned Movement, saw generous US support called into question. However, until the end of the Cold War the geostrategic importance of Yugoslavia remained intact in the eyes of the United States. Washington continued to provide assistance to Yugoslavia in various forms in order to secure its independent and non-aligned position in the Cold War confrontation. The US, as will be shown, also exerted a profound influence on the EEC to pursue a cooperative policy towards Yugoslavia from the early 1960s onwards.

1.1.1. Searching for the Third Way

Excommunication from the Communist bloc shocked Tito and his inner circle who were, at first, reluctant to believe that their ostracism was irrecoverable.⁵⁴ However, from 1950 Yugoslavia gradually developed its economic, military and diplomatic ties with the Western powers. Yugoslavia also resolved some outstanding differences and disputes with the Western powers and neighboring countries. In 1953 Yugoslavia signed a political treaty, the Balkan Pact, with Greece and Turkey.⁵⁵ By establishing an alliance with two NATO members, Tito, in an indirect manner, associated Yugoslavia with the NATO alliance.⁵⁶

The deepening of relations with the Western powers opened the question of Yugoslav integration into Western military, economic and political structures. By the mid-1950s, a number of Western European economic and political organizations had been established. Moreover, as the Cold War intensified after the outbreak of the Korean War in June 1950, the Western European countries started negotiating a proposal on military integration, the so-

⁵³ Svetozar Rajak, “The Cold War in the Balkans, 1945-1956,” in *The Cambridge History of the Cold War, Volume I: Origins*, ed. Melvyn P. Leffler et. al. (Cambridge: Cambridge University Press, 2010), 215.

⁵⁴ Svetozar Rajak, “No Bargaining Chips, No Spheres of Interest: The Yugoslav Origins of Cold War Non-Alignment,” *Journal of Cold War Studies* 16, no. 1 (2014): 148-152.

⁵⁵ At the beginning, Turkey and Greece were interested in this alliance for two reasons; first, the Balkan Pact would strengthen their military position; second, it would improve their position in negotiations about their NATO membership. Dragan Bogetić, *Jugoslavija i Zapad 1952–1955: Jugoslovensko približavanje NATO-u* (Beograd: Službeni list SRJ, 2000), 37-38.

⁵⁶ See more on the historiographical debate about the Balkan Pact and the nature of Yugoslav alliance with NATO in Bogetić, *Jugoslavija i Zapad 1952–1955*, 77.

called Pleven Plan, which led to the signing of the EDC Treaty in 1952.⁵⁷ Yugoslav policy-makers had been until then indifferent to the Western European integration process. Their lack of interest was understandable. In this period, Yugoslavia was primarily preoccupied with surviving the Soviet threat. Moreover, the creation of a narrow sectoral organization, the European Coal and Steel Community, did not seem particularly problematic to Yugoslavia's autarchic, undeveloped, and agrarian-dominated economy. Tito commented for the first time on the process of European integration in the summer of 1952 at a meeting with the Belgian Socialist Party delegation in Belgrade. Tito's position was hesitant. On the one hand, he considered the integration of European countries to be necessary and did not see any threats to Yugoslavia coming from that development. On the other hand, he was skeptical about the creation of a European Army. Tito considered the circumstances still not opportune for such a project and believed that integration should not proceed all at once, due to the economic and political differences among the European countries. Instead, he envisaged a process of gradual integration.⁵⁸ Two months later Tito publicly confirmed this point of view by saying that the creation of the United States of Europe at present was just an illusion and that the European countries should instead focus on cooperation in specific fields – particularly economic cooperation.⁵⁹

Another initiative that drew the attention of the Yugoslav authorities in the early 1950s was the proposal relating to a common agricultural market in Europe, the European Agricultural Community (the so-called Green Pool).⁶⁰ Were such a policy to be successful, it would directly impact Yugoslav agricultural exports to Western European markets. Apart from concern about the Green Pool negotiations (which came to an end in 1955), Yugoslavia's position regarding early Western European integration processes was indecisive. On the one hand, Belgrade had reasons to be cautious, particularly as it was not clear how the whole process would unfold. On the other hand, it had no substantial economic interests to seek broader cooperation with the Western European economic organizations.

⁵⁷ See more in David A. Messenger, "Dividing Europe: The Cold War and European Integration," in *Origins and Evolution of the European Union*, ed. Desmond Dinan (Oxford: Oxford University Press, 2006), 37-43.

⁵⁸ AJ KMJ, I-2-a/12, Razgovor druga Tita sa delegacijom Socijalističke partije Belgije, Bled, 30 July 1952, 3-4.

⁵⁹ "Odgovori na pitanja Norveških novinara, Split, 06/09/1952", in *Tito: Govori i članci* (Zagreb: Naprijed, 1959), 7:180.

⁶⁰ In the early 1950s there were several initiatives by France and the Netherlands on integration of Western European agricultural markets. See more in Richard T. Griffiths and Fernando Guirao, "The First Proposals for a European Agricultural Community: The Pfimlin and Mansholt Plans," in *The Green Pool and the Origins of the Common Agricultural Policy, 1950-1955*, ed. Richard T. Griffith et. al. (London: Lothian Foundation Press, 1995), 1-15; Richard T. Griffiths, "Creating a High Host Club: The Green Pool Negotiations: 1953-1955," in *The Green Pool and the Origins of the Common Agricultural Policy*, 21.

In 1954, however, the issue came to the forefront of the political agenda. At that moment, Yugoslavia was still searching for its place in the international arena. Konstantin “Koča” Popović (1908-1992), the Yugoslav foreign minister, noted in his diary entry on 23 January 1954 that Yugoslavia had three foreign policy options: “Independence and the unification of Europe, neutrality, or further consolidation of the Balkan Pact.”⁶¹ Obviously, any Yugoslav integration in the Atlantic alliance was unacceptable for Belgrade while the option to pursue an active policy towards Third World countries was still not on the table. At the same time, Yugoslavia had to strengthen its standing in the Western alliance in order to improve its position in negotiations over Trieste⁶² and to secure continuous access to Western economic aid and assistance.⁶³ The crisis over Trieste also played a significant role in Yugoslavia’s decision to press Turkey and Greece to convert the Balkan Pact into a military alliance. The Yugoslav policy towards the Western European integration process in 1954 can only be understood within this context, since Yugoslavia’s indirect incorporation into the Western military alliance and positive attitude towards EDC strengthened Belgrade’s position to negotiate an acceptable solution to these two burdensome problems.

At the meeting with the Turkish President, Celal Bayar, on 13 April 1954, Tito explained Yugoslavia’s new positive attitude towards the EDC. The European Defence Community was, in Yugoslavia’s view, too narrow an organization; a purely military organization that could not resolve the complex antagonisms between European countries. Only if the EDC had a broader conception could it significantly contribute to the stabilization of Europe. In that case, Yugoslavia would be prepared to enter into such organization.⁶⁴ In the next few weeks, Yugoslav policy towards EDC was one of the key issues in Yugoslav politics. At the beginning of May, Popović publicly exposed the new affirmative policy towards a broader Western European cooperation at the meeting of the Foreign Policy Committee of the Yugoslav Parliament.⁶⁵ Also, throughout this period the Yugoslav state-

⁶¹ *Vreme*, 9 December 1991., 35, quoted in Bilandžić, *Hrvatska moderna povijest*, 366.

⁶² In January 1954, secret negotiations between Yugoslavia, the United States and Britain regarding the settlement of Trieste had begun in London. The negotiations were difficult and laborious. The final settlement was finally reached on 5 October 1954 when the London Memorandum was signed by ministers of the United States, Britain, Italy, and Yugoslavia. See Bogetić, *Jugoslavija i Zapad 1952–1955*, 125-141.

⁶³ The principal part of Yugoslavia’s 360 million dollars worth of credits was falling due in 1954–56. Since Yugoslavia could have not repaid these debts, Belgrade had asked Western creditor countries for a postponement of 15 to 20 years. AJ KPR, 837, III-B-1-b, br. kut. 70, Informacija o platnom bilansu, 11 June 1954, 2, 6-9.

⁶⁴ AJ KPR, 837, I-2/2, Turska, 12.-18.04.1954. Zabeleška o razgovorima posle intimnog ručka u rezidenciji predsednika Bajara 13 Aprila 1954 godine, 3.

⁶⁵ AJ KPR, 837, II-5-b-2/5, „Ekspoze o spoljnoj politici FNRJ koji je Koča Popović podneo pred spoljno-političkim odborom Savezne skupštine“, 4 May 1954, 7-10.

controlled media paid close attention to this issue, and clearly expressed the positive views of the Yugoslav government on several occasions.⁶⁶

Yugoslav diplomats recognized a few aspects of the EDC that could have been important for Yugoslavia. First, in their view, the EDC should have prevented further penetration of the Soviet Union into Europe. At the same time, it should not further intensify the Cold War confrontation in Europe. Secondly, Yugoslav diplomats hoped that the EDC could have made Western Europe more independent from American tutelage. Yugoslavia was in favour of an independent and strong Western Europe that would rely on its own political, economic and military strength. It therefore looked approvingly upon the possible closer association between the so-called “Little Europe” of the Six and Britain and Scandinavia. While there were some concerns that the EDC could become a Trojan horse for the domination of Germany in Europe which would endanger the Yugoslav position, Belgrade saw it more as a means to contain Germany and its economic and military power.⁶⁷

The Yugoslav–EDC episode was, however, only that – an episode. Yugoslavia’s rather qualified offer to adhere to the EDC – conditional on the vague suggestion that the EDC should first develop beyond its envisaged military framework – did not carry much weight, especially since at that moment it was quite evident that the EDC “had come to a dead end.”⁶⁸ Despite this, its positive stance on the EDC had strengthened Belgrade’s position in the crucial moment of negotiations about the Balkan Pact military treaty and over Trieste. After the military treaty was signed in August of 1954, followed by the London Memorandum of Understanding on Trieste in October of 1954, the Yugoslav government had little incentive to conduct further active policy towards the military integration of Western Europe. What is more, Soviet–Yugoslav reconciliation – at that moment an important process that was to entirely shift Yugoslavia’s international position – had begun. Thus, in the new

⁶⁶E.g. “Posjet predsjednika Turskoj odlučan korak za daljnji razvitak i jačanje sigurnosti članica Ankerskog sporazuma i stabilnosti mira.” *Borba* 19, no. 98, April 24, 1954, 1; Jože Brilej, “Evropska suradnja,” *Borba* 19, no.99, April 25, 1954, 1; etc.

⁶⁷ DA MSP RS, PA, 1954, f-70, d. 7, 417311. Problemi evropske saradnje i integracije (C. Job), 10 March 1954, 1-3.

⁶⁸ At the FEC meeting on 27 April, Tito reported about his visit to Turkey. At this occasion the Yugoslav government for the first time discussed Yugoslav policy towards the EDC, although Tito had already expressed a Yugoslav conditioned readiness to enter the EDC. In his report, Tito stressed that he considers Yugoslav relations with the EDC as the most important issue of the moment. In regard to the EDC, besides giving a detailed description of the talks, at the end of the session, Tito commented that “France does not want to ratify the EDC Treaty, Italy constantly blackmails with the Trieste issue – in one word, the EDC has come to a dead end. I don’t have an illusion that our statement will save the EDC, but in a sense it will still be helpful.” AJ KPR, 837, I-2/2, Turska, 12.-18.04.1954. Izvještaj predsednika Republike Josipa Broza Tita o poseti Turskoj podnet na sednici Saveznog izvršnog veća, 27 April 1954, 12.

circumstances plans for the military integration of Western Europe, now embodied in revival of Western European Union (WEU), lost all of its attraction for the Belgrade government.

Yugoslav policy towards the Council of Europe more or less followed the pattern of its policy towards the EDC. At first, Yugoslav diplomacy did not pay attention to the establishment and evolution of the Council of Europe. The prevailing Yugoslav view of the Council of Europe in this period was that it was founded as a Western European counterbalance to the establishment of Cominform. And since the Council of Europe failed to become the nucleus of a united Europe, it was seen as an instrument of the Cold War with the objective to manipulate European public opinion regarding East-West confrontation.⁶⁹ In 1954, however, with the ever closer integration of Yugoslavia into the Western alliance through the Balkan Pact, and after Tito's April statement regarding the EDC, the issue of Belgrade's relationship with the Council of Europe became one of the significant points in question of Yugoslav foreign policy as well.

At that moment, some initiatives were coming from the member states concerning the Yugoslav affiliation with the Council of Europe.⁷⁰ Although there was significant momentum on this issue, during the summer of 1954 Yugoslav diplomacy focussed on finalizing the military annex to the Balkan Pact as well as the London negotiations over Trieste, so there was no time to deal with the issue of the relationship with the Council of Europe. More importantly, the uncertainty over the EDC ratification and the repercussions that this would have on the European cooperation cautioned not to make haste.⁷¹ In the end, the failure of the EDC prompted a more active Yugoslav policy towards the Council of Europe.

⁶⁹ DA MSP RS, PA, f-104, d. 31, 418298. Izvještaj o zasedanju Savetodavnog Evropskog parlamenta u Strasburgu od 7 do 26 avgusta 1950, Pariz, 6 September 1950, 12-13.

⁷⁰ Greece was particularly interested in bridging Yugoslavia with the Council of Europe. In June, before Tito's visit to Athens, the Greek government had raised the question of Yugoslav association with the Council. Later that month, during his visit to Bonn, Greek Prime Minister Papagos opened this issue in discussion with Chancellor Adenauer. According to the Yugoslav ambassador, Iveković, both sides agreed to sponsor the Yugoslav association with the Council. The Belgium foreign minister, Paul-Henry Spaak, had in May already suggested to Barišić that Yugoslavia should associate itself with the Council. Finally, Guy Mollet, the President of the Parliamentary Assembly of the Council of Europe, recommended at the Parliamentary Assembly May session that the Council and Yugoslavia should establish a closer relationship. DA MSP RS, PA, f-67, d. 4, 46100, Telegram Ambasade FNRJ iz Atine, 13 May 1954; PA, f-67, d. 8, 48809, Telegram Ambasade FNRJ iz Bonna, 29 June 1954; PA, f-67, d. 4, 46100, Telegram Ambasade FNRJ iz Atine, 13 May 1954; PA, f-67, d. 8, 48809, Telegram Ambasade FNRJ iz Bonna, 29 June 1954; PA, f-70, d. 11, 417691, Zabilješka: Članstvo i forme povezivanja sa ES-om i Jugoslavija, 18 September 1954, 2; PA, f-67, d. 4, 45967, Telegram Poslanstva FNRJ iz Brisela, 10 May 1954; PA, f-70, d. 11, 417691, Zabilješka: Članstvo i forme povezivanja sa ES-om i Jugoslavija, 18 September 1954, 2; PA, f-70, d. 11, 417691, Članstvo i forme povezivanja sa ES-om i Jugoslavija, 18 September 1954, 2.

⁷¹ DA MSP RS, PA, f-67, d. 9, 410494, Telegram DSIP-a Generalnom konzulatu FNRJ – Strasbur, 18 July 1954, 1.

In the Yugoslav foreign ministry's analysis from the end of August 1954, the EDC was portrayed as an immature, unrealistic and limited project supported by the United States and Western European right-wing parties. The ministry viewed the collapse of the EDC as a devastating debacle for the conception of the "Little Europe," but also as an opportunity for the revival of the Council of Europe – the "Europe of Fifteen." In their view, this was a more realistic path to achieve a European cooperation and integration gradually. Also, in this framework the United Kingdom, whose position in Europe was now significantly strengthened, might have a much greater role. Furthermore, such a development would probably also entice the Scandinavian countries to take a more active and prominent role in the process of European integration. Obviously, the widening of the European integration process based on the intergovernmental cooperation method would suit Yugoslav interests and ease the difficult international position of the country.⁷²

At the meeting of the Vice-President of the Yugoslav government, Edvard Kardelj, with the representatives from the Ministry of Foreign Affairs on 14 September 1954, besides discussing the situation concerning the failure of the EDC and its aftermath, the Yugoslav relations with the Council of Europe were also reviewed. At the meeting, it was decided that Yugoslavia should now conduct a more active policy towards the Council in order to establish some association with the organization.⁷³ The rationale behind this decision was the following: the Council of Europe was an exclusive European forum at which all the problems of intra-European cooperation could be discussed, and furthermore individual initiatives in regard to a broad range of questions concerning cultural, social and economic policy could have been put forward. At the same time, the decisions of the Council of Europe were nonbinding and only had moral and political consequences. Moreover, the Council was a European institution that gave an excellent insight into the positions of a significant number of European countries, and, what is more, an opportunity to influence their viewpoint.⁷⁴ Therefore, Kardelj believed that Yugoslavia could, even if only as an observer, take an active part in the process of European integration and advocate the policy of a broader European cooperation.

The major obstacle to Yugoslav association with the Council of Europe was the fact that Yugoslavia did not comply with Article 3 of the Statute of the Council of Europe, a

⁷² DA MSP RS, PA, f-70, d. 7, 417650, Ocjena reperkusija odbijanja EOZ od strane Francuskog parlamenta, posebno na naš spoljnopolitički položaj i konkretni prijedlozi za naše stavove i akcije, 1 September 1954, 2.

⁷³ AJ KPR, 837, II-5-c-2/34, Zabeleška o diskusiji kod potpredsednika SIV Kardelja o aktuelnim evropskim problemima, 14 September 1954, 2.

⁷⁴ DA MSP RS, PA, f-70, d. 11, 417487, Evropski savet – kratki elaborat, 22 May 1954, 10-11.

requirement that all member states must protect human rights, pluralist democracy and the rule of law. The fundamental problem was the fact that Yugoslavia was a Communist, one-party state. Even though some prominent European politicians, such as the Belgium foreign minister Paul-Henry Spaak and Guy Mollet, the President of the Parliamentary Assembly of the Council of Europe, favoured closer relations between Yugoslavia and the Council it was uncertain whether Yugoslavia's application would be successful.⁷⁵ As the Secretary-General of the Council, John Salter, told the Yugoslav consul Marko Milić while inquiring about Yugoslav intentions in Strasbourg in May 1954, the Council was “an ideological community that is based on nineteenth century liberal ideas”, and in order to join the club, “every member has to pay the fee that, in this case, is Article 3.”⁷⁶

However, the limits of liberalization and democratization in Yugoslavia were already established at the beginning of 1954 by the Djilas affair.⁷⁷ Between November 1953 and January 1954, Djilas launched a series of articles in the daily newspaper *Borba*, charging the party bureaucracy with despotism, sterility of dogma, and self-aggrandizement. He advocated that the Leninist doctrine of party dictatorship should be dropped and that the party apparatus should be allowed to wither away in the interest of an “authentic democracy.” After a particularly provocative article in January 1954, Tito accused Djilas of revisionism and forced him into retirement. The Djilas affair and its aftermath in December 1954, when Vladimir Dedijer – Tito's official biographer – supported Djilas, had little effect on the stability of Tito's regime. However, the affair revealed major differences in views between the more liberal and the more authoritarian elements in the party. It also demonstrated how far Tito was prepared to go in liberalizing the regime. As the US government concluded, Tito and his followers were no “more interested in surrendering their power to Western democracy than to Sovietism.”⁷⁸ Thus, the Yugoslav Communist regime was not prepared to compromise on the authoritarian nature of the system, although Yugoslavia was interested in cooperation with the Council of Europe. Yugoslavia's expectation that a political solution to this problem could be achieved, based upon the initiatives coming from the West regarding its association with the Council, proved to be wrong. This to a certain point influenced the Yugoslav perception of the Council of Europe as a rather ideological organization that failed

⁷⁵ DA MSP RS, PA, f-67, d. 6, 47671, Izvještaj Generalnog konzulata FNRJ iz Strasbourga, 3 June 1954, 5.

⁷⁶ *Ibid.*, 4.

⁷⁷ Dejan Djokić, “Britain and Dissent in Tito's Yugoslavia: The Djilas Affair, ca. 1956,” *European History Quarterly* 36, no. 3 (2006): 371-372; Bilandžić, *Hrvatska moderna povijest*, 350-365.

⁷⁸ Paper prepared in the Office of the Special Assistant to the Secretary of State for Intelligence (Armstrong), 18 January 1954, FRUS, 1952-1954, 8:1365; quoted in Lees, *Keeping Tito Afloat*, 135.

to evolve into a genuine pan-European organization.⁷⁹ Therefore, the Yugoslav government's interest in the Council of Europe ended in 1955.

By then there was a growing concern in the Yugoslav leadership about the consequences of a pro-Western policy. In their view, such a policy would in time compromise Yugoslav political independence because of economic and military dependence on the West. Already in 1948 Tito and his comrades had learned not to rely exclusively on one bloc since this could lead the country into a complete international isolation and nearly fatal vulnerability.⁸⁰ Second and equally important, they feared that close cooperation with the West would, later on, put the socialist political system at risk.⁸¹ Tito was convinced that the West would always aspire to transform Yugoslavia into a "Western type of democracy."⁸² As Eisenhower stated during the 1952 presidential campaign when speaking of Yugoslavia and Spain's relationship with NATO, the United States should make alliances only with countries that shared its commitment to a free system, so it would be "a great victory for the free world" if Spain and Yugoslavia would "begin to show what we would consider a little bit more enlightened concern for these fundamental aspirations and forms of government."⁸³ Indeed, the Yugoslav experience with the Council of Europe was yet another confirmation of such a tendency in the politics of Western countries towards Yugoslavia.

Thus, in the first years of the Cold War Yugoslavia found itself in an ambiguous position between the Eastern and the Western blocs. It was vital for Tito's regime to search for a middle position so it could achieve independence in world affairs and, by doing that, to ensure its survival and avoid foreign dominance. As Rajak convincingly argues, the Yugoslav government began searching for a "third way" already in the early 1950s, but there were a number of conditions that had to be fulfilled so that Yugoslavia could pursue such a policy. Reduced international tensions were the most important prerequisite. Yugoslavia also had to find an ally or allies at the international stage that would contribute to reducing tensions, promote peace, overcome Yugoslavia's isolation and increase the country's prestige. The Yugoslav leadership first turned to the non-Communist Left, but soon it became apparent that they could not expect the necessary assistance from them. Therefore, they turned to the

⁷⁹ DA MSP RS, PA, f-67, d. 8, 422950, Problemi evropske saradnje u novim uslovima, 22 March 1956, 30-31.

⁸⁰ Rajak, "No Bargaining Chips, No Spheres of Interest: The Yugoslav Origins of Cold War Non-Alignment," 153, 156.

⁸¹ Bogetić, *Jugoslavija i Zapad 1952-1955*, 175-178.

⁸² See more about the difference between the Western and Yugoslav conception of democracy in Vladimir Velebit, "Yugoslavia on Her Way towards a Socialist Democracy," *International Affairs* 30, no. 2 (1954): 156-165.

⁸³ Lees, *Keeping Tito Afloat*, 125-126.

developing African and Asian countries to forge together an independent position in the international politics.⁸⁴

The turn towards a policy of non-alignment was not sudden.⁸⁵ Stalin's death in 1953 and the subsequent Soviet "peace offensive" opened the possibility of a Soviet–Yugoslav rapprochement and a new Yugoslav foreign policy. However, the process of normalization was initiated only with the Khrushchev–Tito correspondence in the course of 1954. Thereby a new chapter in the shaping of the Yugoslav Cold War policy towards the two opposing blocs began. The normalization of relations between Yugoslavia and the Soviet Bloc began almost entirely on the Soviet initiative, and the reconciliation was completed when Tito and Khrushchev issued the Belgrade and Moscow Declarations in 1955 and 1956, respectively.⁸⁶ Although Yugoslav leadership has preserved a genuine adherence to Communism, it was no longer possible to lure Tito back to the Soviet bloc.⁸⁷ Instead, the Yugoslav regime chose to take advantage of this new situation and decided to pursue a policy of active political neutralism, embodied in the principles of "active coexistence."⁸⁸

Hence, rather than taking sides in the bipolar Cold War world, from the mid-1950s the Yugoslav political establishment adopted a policy of equidistance between the two blocs, getting closer to either camp according to convenience in certain periods. In the late 1950s, after the second Yugoslav–Soviet confrontation, Belgrade added another distinctive feature to its foreign policy: a global orientation towards the world's developing countries. Undoubtedly, Tito early recognized that the cooperation with the developing countries was a powerful strategy that would help promote Yugoslavia's independent position in world affairs.⁸⁹ In addition, the policy of non-alignment had to strengthen the country internally by

⁸⁴ Rajak, "No Bargaining Chips, No Spheres of Interest," 147, 153-157. See more about the Yugoslav Communists relations with the British Labour Party in: Vladimir Unkovski-Korica, „The Yugoslav Communists' Special Relationship with the British Labour Party 1950-1956“, *Cold War History* 14, no. 1 (2014): 24-46.

⁸⁵ In the 1950s Tito and Yugoslav officials used terms „non-commitment“, „non-engagement“, and „active peaceful coexistence“ to describe the Yugoslav new foreign policy. The term „non-alignment“ was introduced in the late 1950s and became generally accepted after the Belgrade conference in 1961. Ibid, 147.

⁸⁶ The Belgrade Declaration expressed Soviet willingness to cooperate with Yugoslavia on the basis of full respect for national sovereignty, territorial integrity, equality and non-interference in internal affairs. Given that the Yugoslav side advocated these principles since 1948, the New York Times titled its comment of the meeting "Soviet Canossa." Bilandžić, *Hrvatska moderna povijest*, 371.

⁸⁷ The United States intelligence came to the same conclusion. From 'national communism' to national collapse: NIE 31-55, Yugoslavia and its Future Orientation, 23 February 1955, 4-5.

⁸⁸ Rinna Kullaa, *Non-Alignment and its Origins in Cold War Europe: Yugoslavia, Finland and the Soviet Challenge* (London: I.B. Tauris, 2012), xiv, 94, 131. AJ KPR, 837, I-5-a/1, O nekim načelima politike aktivne koegzistencije, 1955, 1-6.

⁸⁹ Leo Mates, a prominent Yugoslav diplomat points out that Tito's visit to India and Burma (December 1954–February 1955) was a critical moment after which Yugoslavia has focused on cooperation and joint action with the Third World countries. The historiography of Yugoslav non-alignment largely accepts that the concept of

enhancing the credibility of its leaders and reinforcing the legitimacy of the communist regime on the whole.⁹⁰ Finally, it was not only the delicate Yugoslav international position – especially the standing Soviet threat to Yugoslav independence – that significantly strengthened the integrity and legitimacy of the Communist Party regime. In addition, by the balancing between the United States and the Soviet Union, Tito also managed to obtain substantial economic assistance from both blocs.

In the following period, Yugoslavia became under Tito leadership one of the pillars of the Non-Aligned Movement. Through it Yugoslavia advocated a policy of active and peaceful co-existence and a world-wide cooperation as a path to overcome the bloc division, and correspondingly campaigned for the creation of a new international economic order which would meet the needs of less developed nations.⁹¹ Undoubtedly, Tito's skillful diplomacy combined with the country's geostrategic and political importance facilitated Yugoslavia's active and visible role in international relations, particularly among the newly independent developing countries. Its policy of non-alignment, however, was not a matter of choice. As Tvrtko Jakovina has argued, "In the Cold War surrounding (...) without the slightest desire and ability to actually cross to the West, and going back to the East was neither possible nor wanted, the middle way was the only way for Yugoslav diplomacy."⁹²

non-alignment was formulated by 1955. Among the recent historiography, perhaps the most well-known work is that of Rinna Kulla who argues that the Yugoslav non-aligned policy was conceived "in the long aftermath of the 1956 Suez and Hungarian crisis, when superpower interests threatened both Yugoslav and Egyptian security." Kulla, *Non-Alignment and its Origins in Cold War Europe*, xiv, 11-17; Leo Mates, *Međunarodni odnosi socijalističke Jugoslavije* (Beograd: Nolit, 1976), 127-128, 142-144.

⁹⁰ As Rubinstein in his seminal book emphasizes, the Yugoslav leadership embraced the policy of non-alignment not only as a way to enhance international country position but also as a foreign policy doctrine acceptable to both pro-Russian and pro-West European faction of the party. A more substantial approach to the domestic political motivations for Yugoslavia's pursuit of nonalignment can be found in Neibuhr's recent article "Nonalignment as Yugoslavia's Answer to Bloc Politics". Alvin Rubinstein, *Yugoslavia and the Nonaligned World* (Princeton, NJ: Princeton University Press, 1970), 65-66, 69, 71-72; Robert Niebuhr, "Nonalignment as Yugoslavia's Answer to Bloc Politics", *Journal of Cold War Studies* 13, no. 1 (2011): 146-179.

⁹¹ Mates, *Međunarodni odnosi socijalističke Jugoslavije*, 24-25.

⁹² Tvrtko Jakovina, *Treća strana Hladnog rata* (Zaprešić: Fraktura, 2011), 34.

1.2. Yugoslavia and Western European Economic Integration

From the previous discussion, it can be seen that the failure of the Western Europe countries to construct an independent Third Force in the postwar international order had a substantial impact on the Yugoslav foreign policy orientation in the Cold War, because its international position was dependent on three-cornered relationships with the United States, the Soviet Union and developing Afro-Asian countries.⁹³ While politically Western Europe did not play such a prominent role in Yugoslav foreign policy, Western European countries were Yugoslavia's major trading and financial partners alongside the US. Moreover, from the mid-1950s, Yugoslavia became increasingly dependent on the Western European countries, mostly Germany and Italy, as major exporters of capital goods which were in high demand given the fast-paced industrialization of the country. The policy of unbalanced economic development was one of the leading causes of the endemic balance of payments deficit, which in 1957 was already acknowledged as one of the central problems of Yugoslav economy.⁹⁴ This matter was one of the greatest points at issue between Yugoslavia and the Western European countries, and later the EEC. In order to understand the centrality of the EEC in Yugoslav foreign trade and economic policy, it is necessary to analyze it within the wider framework of the Yugoslav foreign trade policy.

In the early 1950s Western financial, economic and military support was critical for the country's survival. By 1955, however, the international position of Yugoslavia had pointedly altered, which had a significant impact on the position of Yugoslav leadership regarding Western economic assistance. Ideological and political aversion to extensive economic reliance on the Western bloc was reinforced by commercial factors, since the Yugoslav economy was not competitive enough to succeed in Western markets. At the same time, international developments from the mid-1950s enabled the Yugoslav government to widen and diversify its global trade relations. First, the normalization of relations with the Soviet Union opened up economic ties with the Eastern bloc. From 1954/55, Yugoslavia re-established trading relations with most of the Eastern European countries and the Soviet

⁹³ See more about these three "special relationships" in John R. Lampe, "Yugoslavia's Foreign Policy in Balkan Perspective: Tracking between the Superpowers and Non-Alignment," *East Central Europe* 40 (2013): 97-113.

⁹⁴ AJ, 507, ACK SKJ, III/71, Zaključci sa proširene sjednice IK CK SKJ, 27 June 1957, 1.

Union.⁹⁵ Both sides had an interest in developing economic cooperation. Yugoslavia was interested in decreasing its dependence on the West,⁹⁶ while the Soviets recognized economic assistance as the best way to lure the strayed child back to the Eastern camp. After settlement of the awkward issue of mutual financial claims and compensation resulting from the Tito–Stalin split,⁹⁷ in 1956 the Moscow and Belgrade governments signed four agreements that ensured significant financial benefits for the Yugoslav economy. The Soviets provided Belgrade with a USD30 million long-term loan in gold so that Yugoslavia could cover unfavourable short-term credits to the Western countries, a commodity credit of USD54 million, and an additional USD285 million worth of investment credits (in rubles) for constructing industrial projects in Yugoslavia and for building an aluminium plant in Yugoslavia with the participation of East Germany.⁹⁸

The search for a new foreign trade strategy that could map on to Yugoslavia's global political connections implied a significant role for the developing African and Asian countries in the Yugoslav economic framework. Here, the aim was to reduce its narrow dependence on European markets. Yugoslav policy-makers anticipated intensive economic growth within these countries in the near future. Therefore, a worldwide pattern of commerce should have not only lessened Yugoslav dependence on the Western economies but also provide expanding markets for its industrial products.⁹⁹ Simultaneously, Belgrade was interested in purchasing primary commodities from these countries, and by doing so, seeking to avoid dependence on the Western markets in acquiring these products. Also, trading with the Third World countries would have, in their view, reduced the balance of payments deficit since Yugoslavia would not have to buy commodities by using convertible currency, but rather through clearing arrangements.¹⁰⁰

⁹⁵ In 1955 Yugoslavia concluded trade agreements with the Soviet Union, Czechoslovakia, Poland, Hungary, Bulgaria and Romania. AJ KPR, 837, III-B-1-a, Pregled dosadašnjeg poslovanja sa istočno-europskim zemljama po Trgovinskim sporazumima, 24 May 1955, 1.

⁹⁶ AJ, 507, ACK SKJ, III/67, Stenografske beleške sa proširene sednice IK CK SKJ, 6 November 1956, 38-39.

⁹⁷ Yugoslavia estimated total damage of Eastern bloc economic blockade at USD443 million. DA MSP RS, PA, f-70, d. 7,417402, Beleška o obračunu dugovanja i potraživanja naše zemlje prema istočnoeuropskim zemljama i proceni štete nastale usred blokade, 17.

⁹⁸ Svetozar Tempo Vukmanović, *Revolucija koja teče 2* (Beograd: Komunist, 1971), 255; "Economic Relations between Yugoslavia and the Soviet Bloc," 20 June 1958. HU OSA 72-4-192: 298; Background Report; Publications Department; Records of the Radio Free Europe / Radio Liberty Research Institute; Open Society Archives at Central European University, Budapest, 1-3.

⁹⁹ This was even more important since it was evident that Yugoslavia's industry could barely compete in Western European markets. Miodrag Zečević, ed., *Početak kraja SFRJ. Stenogram i drugi prateći dokumenti proširene sednice Izvršnog komiteta CK SKJ održane 14-16. marta 1962. godine* (Beograd: Arhiv Jugoslavije, 1998), 77.

¹⁰⁰ Vukmanović, *Revolucija koja teče 2*, 305.

Tito's visit to India and Burma in 1954/55 was a decisive moment in setting the course of Yugoslav policy towards the Third World countries. As Darko Bekić argued, in the course of the journey Tito underwent "an intellectual catharsis... through which [he] got rid of his Balkan selfishness and Eurocentric horizons and overnight ... became a citizen of the world and a world leader."¹⁰¹ Moreover, upon his return to Yugoslavia, Tito was convinced that strong economic ties with Asian and African countries would be advantageous to both sides. In March 1955 in his address to both Houses of Yugoslav Federal Assembly Tito explained the new Yugoslav policy:

In the economic field, the necessary conditions exist to develop a comprehensive and versatile cooperation and more extensive trade relations. (...) As for our country, up to now our industry developed so fast that today we can export many articles necessary for capital construction, and we are also in a position to trade significant amounts of consumer and manufacturing goods. On the other hand, we do not sufficiently exploit the opportunities to purchase on these markets. Our foreign trade would have to have more political and commerce sensitivity to develop business with these countries (...). Trade must be thought about in its perspective (...) and not only be managed by the present advantages (...) because trade with these countries is very closely linked to political issues and must be in full compliance with them.¹⁰²

Notwithstanding the new orientation of the Yugoslav foreign trade policy, from the mid-1950s Yugoslavia also had to strengthen its economic relations with trading partners in Western Europe as a result of the end of a tripartite financial aid from the US, Britain, and France. In the period from 1951 to 1955 Yugoslavia received USD492.9 million within the tripartite framework. The tripartite aid covered a substantial share of the deficit and was vital for the stability of economy as well as the implementation of ambitious industrialization plan (see Table 3). The major contributor was the US which provided 82.5% of the assistance. Washington continued to financially support Yugoslavia after the end of Western multilateral

¹⁰¹ Darko Bekić, *Jugoslavija u hladnom ratu: Odnosi sa velikim silama 1949-1955* (Zagreb: Globus, 1988), 674; cited from Jovan Čavoški, "Between Great Powers and Third World neutralists: Yugoslavia and the Belgrade Conference of the Non-Aligned Movement, 1961," in *The Non-Aligned Movement and the Cold War: Delhi – Bandung – Belgrade*, ed. Nataša Mišković et. al. (London: Routledge, 2014), 186-187.

¹⁰² "Ekspozice u Saveznoj narodnoj skupštini o spoljnoj politici FNRJ," in *Tito. Govor i članci* (Zagreb: Naprijed 1959), 10:128-129. From 1955 onwards, the Yugoslav government undertook a number of initiatives to expand Yugoslav trade towards these countries. E.g. in 1957, Tito instructed Vukmanović to visit 13 African and Asian countries to foster trading relations with them, Vukmanović. *Revolucija koja teče* 2, 303, 305.

aid, albeit to a lesser degree.¹⁰³ At the same time, the trading relations with the US began to stagnate, largely as a consequence of declining Yugoslav exports to the American markets and geographic distance. Therefore, the trading relations with the Western European countries became from the mid-1950s increasingly important for Yugoslav economic development. For this reason the Yugoslav government signed several agreements with its largest trading partners in 1956. On 1 March, Yugoslavia and Italy opened a new chapter in their relations by signing an investment credit worth USD60 million. Ten days later, the Bonn and Belgrade governments reached an economic agreement under which West Germany provided a line of credit of DEM240 million to Yugoslavia with no interest rate over a period of 99 years. Finally, on 26 March 1956, Yugoslavia refinanced its debt held by the UK.¹⁰⁴ Broadening and deepening of economic ties with Western European countries placed greater emphasis on the role of the OEEC in Yugoslav foreign trade policy.

1.2.1. Yugoslavia's Association with the OEEC (1955-1957)

In 1954, Yugoslav policy-makers began to reconsider their policy towards the OEEC. A number of factors played a role here. Already in early 1954, it was clear that the Tripartite Agreement was going to end in the near future, a fact which was further aggravated by the first payments crisis towards Western debtors.¹⁰⁵ At the same time, West Germany already became Yugoslav's principal trading partner amounting to 20% of total foreign trade, while the resolution of the Trieste issue in 1954 raised hopes for trade opening with Italy. Most importantly, there was a growing awareness in the political establishment that the bilateral form of trade with Western European countries was no longer adequate to expand trade with them. As the establishment of an effective multilateral clearing union within the framework of the OEEC, the European Payments Union (EPU), and the liberalization of intra-European trade generated an almost immediate increase in intra-European trade from 1950 onwards,¹⁰⁶

¹⁰³ Slobodan Branković, *Impact of Foreign Aid on the Postwar Development of Yugoslavia* (Geneva: UNESCO, 1962), 6-18; Novak Janković, "The Changing Role of the USA in Financing Yugoslav Economic Development Since 1945," in *Economic and Strategic Issues in U. S. Foreign Policy*, ed. Carl-Ludwig Holtfrerich (Berlin and New York: de Gruyter, 1989), 256-266.

¹⁰⁴ Dragan Bogetić, *Nova strategija jugoslavenske spoljne politike 1956-1961* (Beograd: Institut za savremenu istoriju, 2006), 12-13, 82-85.

¹⁰⁵ John Lampe et. al., *Američko-jugoslavenski ekonomski odnosi posle Drugog svetskog rata* (Beograd: NIP Radnička štampa, 1990), 50.

¹⁰⁶ Catherine R. Schenk, "Foreign Trade and Payments in Western Europe," in *Western Europe: Economic and Social Change Since 1945*, ed. Max-Stephan Schulze (Abingdon: Routledge, 2014), 112.

the Yugoslav government was interested in achieving liberalization of trade and multilateral payment arrangements with the OEEC. Another OEEC organization, the European Productivity Agency (EPA), caught the attention of the Belgrade authorities as well.¹⁰⁷ Its activities aimed to increase the productivity of Western European economies were also of particular interest for them.

According to Yugoslav estimates, an arrangement with the OEEC would help the country to balance its trade with the Western Europe countries and to reduce the balance of payments deficit, as it would enhance export opportunities for industrial products. Also, the government anticipated that the availability of the EPU credit lines could improve its financial position. Belgrade saw some disadvantages as well, most importantly a modest agricultural trade liberalization.¹⁰⁸ Besides participation in the EPU, Yugoslavia was interested in profiting from experiences of developed Western European economies in building a modern, industrialized economy by taking part in the EPA. For these reasons, in December 1954, at the time when Yugoslavia was seeking a closer association with the Council of Europe, the government applied for observer status in the OEEC. The US, British, and French governments actively supported the Yugoslav application. In fact, the Yugoslav approach to the OEEC was encouraged by a joint Committee handling tripartite economic aid to the country.¹⁰⁹ Their support was based on broader Cold War considerations. At that moment, the Yugoslav–Soviet rapprochement aroused suspicion in Western policy circles about the country's future foreign policy orientation. The Yugoslav association with the OEEC was supposed to secure close economic and political relations with the West. It was for this reason that the OEEC Council on 25 February 1955 granted observer status to Yugoslavia.¹¹⁰

The association with the OEEC corresponded with the emerging Yugoslav foreign policy of political and economic coexistence as well. The Ministry of Foreign Affairs has established three main principles according to which it valued the merits of particular European regional organizations. First, the organization should contribute to the constructive

¹⁰⁷ See more about the EPA in Bent Boel, *The European Productivity Agency and Transatlantic Relations 1953-1961* (Copenhagen: Museum Tusulanum Press, 2003).

¹⁰⁸ AJ KPR, 837, III-B-2-b, Informacija o stanju i perspektivama u privrednoj politici zapadnih zemalja, 22 May 1953, 4-5; DA MSP RS, f. 67, d. 11, 417758, O problemu ekonomske integracije Zapadne Europe, 1953, 16-17; PA, f-68, d. 6, 424039, Delatnost Evropske platne unije i pitanje naše saradnje, 1956, 13-14, 18-19.

¹⁰⁹ NARA, Record Group 59, Subject-Numeric Files 1964-66, Box 3288 (OECD 6 Yugo), Report of the US OEDC delegation A-57, 30 July 1966, confidential, 3.

¹¹⁰ HAEU, OEEC-54, Council Minutes of the 274th Meeting held at Chateau de la Muette, 25 February 1955, 4-5.

development of international relations, particularly in Europe. Secondly, it should provide a framework for cooperation with the independent European countries. Finally, it should encourage wider European cooperation. Because of a delicate position of Yugoslavia in divided Cold War Europe, Belgrade was eager to promote wider regional economic integration through bilateral relations, the UN Economic Commission for Europe, and the appropriate existing regional organizations.¹¹¹ In other words, Yugoslavia preferred some combination of geographically-broad and institutionally-weak cooperation, and, therefore, the OEEC was an acceptable framework for the Belgrade government. The end of the Marshall Plan in 1952 also played a role in the decision, since it diminished the US role in the organization, which therefore, in Yugoslavia's view, became a genuine Western European economic organization.¹¹²

Until 1957, Yugoslavia established only limited cooperation with the OEEC. At the beginning of that year, the Council of OEEC recommended that its member countries approve a 10 per cent transferability of Yugoslav foreign exchange earnings within the OEEC area. This, however, had been exceeded in practice by bilateral arrangements providing for 100 per cent transferability of Yugoslav balances on the accounts in the countries concerned. Thus, a major part of Yugoslav funds was transferable even before the introduction of convertibility in Western Europe in 1958.¹¹³ And since bilateral export contracts remained the norm in intra-European trade until then, Yugoslavia favoured the continued pursuit of bilateral agreements with Western European countries. In addition, the Belgrade government managed to modify some of these agreements and to adopt more flexible methods of conducting trade and settling external payments. Besides securing its interests in trade with the OEEC countries, in 1957 Yugoslavia became associated with EPA.¹¹⁴

Altogether, the Yugoslav attitude towards Western European economic integration until 1957 was indifferent. For Yugoslavia, the existence of a supranational, sectoral European Coal and Steel Community did not represent a threat to its economic interests.

¹¹¹ DA MSP RS, PA, f-67, d. 8, 422950, Problemi evropske saradnje u novim uslovima, 22 March 1956, 2, 24-25, 28-29.

¹¹² DA MSP RS, PA, f-70, d. 7, 417174, Evropska problematika, 11 January 1954, 2; PA, f-67, d. 8, 422950, Problemi evropske saradnje u novim uslovima, 22 March 1956, 5.

¹¹³ DA MSP RS, PA, f-113, d. 8, 417333. Pitanje naše saradnje sa OECD, 30 May 1961, 4; PA, f-93, d. 10, 48496, Savezna spoljnotrgovinska komora: Evropsko udruženje slobodne trgovine, 20 January 1960, 17.

¹¹⁴ In December 1956 the FEC made the decision to participate in the work of agency and in 1957 Yugoslavia became associated with EPA. DA MSP RS, PA, f-67, d. 16, 422155. Organizovanje saradnje sa EPA, 6 July 1957, 1-3; PA, f-76, d. 10, 48962, Pristupanje Jugoslavije Evropskoj agenciji za produktivnost i uplata iznosa od 9.000.000 fr. franaka, 1956.

Furthermore, the changing pattern of the foreign trade to a certain extent decreased the degree of Yugoslav dependence on the Western bloc. At the same time, Yugoslavia managed to protect its economic and commercial interests in Western Europe by association with the OEEC. The intergovernmental character of the OEEC and the flexibility of the association corresponded with the Yugoslav foreign policy of equidistance. Ideological differences, although present in certain instances, did not hamper the Yugoslav cooperation with the OEEC. The Yugoslav economic interests on the one side, and Western political interest in keeping Yugoslavia incorporated in the Western economic system at the moment when normalization of relations between Yugoslavia and the Soviet Union was underway, on the other, played a crucial role in establishing the grounds for OEEC–Yugoslav cooperation.

1.2.2. New Economic Policy and Yugoslav Foreign Trade Relations

The Yugoslav attitude towards the Western European integration process began to change in 1957. The new economic policy and worsening of the country's international position alongside with the creation of the EEC and regionalization of Western European trade had a significant impact on the Yugoslav authorities. In this period they recognized the urgency to address the difficult problems arising from the country's delicate international position and its economic and foreign trade policies. The primary concern for the government was the increasing balance of payments deficit. Yugoslav policy-makers had been slow to formulate a coherent policy response to this problem, partly because in the early 1950s the prevailing view was that this was a short-term difficulty. Svetozar Vukmanović-Tempo, the Vice-President of the FEC responsible for the economy, explained in 1954 that "at our present stage of development we have already to a great extent created the material base for increasing exports, reducing imports and gradually cutting the deficit."¹¹⁵ More and more, however, it will become evident to the policy-makers that in a backward, developing country the balance of deficit was a long-term structural economic problem.

The primary source of the balance of payments disequilibrium was the high level of investments. The rapid industrialization of the country with a priority on building up basic,

¹¹⁵ Vukmanović, *Privredni razvoj i socijalistička izgradnja*, 394; quoted in David Dyker, *Yugoslavia: Socialism, Development and Debt* (London and New York: Routledge, 1990), 51. In 1955 Yugoslav planners estimated that the external deficit would be eliminated by 1960. AJ KPR, 837, III-B-1-b, br. kut. 70, Platni bilans za period 1956-1960, 6 June 1955, 2-3.

heavy industry demanded massive imports of expensive capital goods from the West while Yugoslavia could only sell back certain agricultural products and some raw materials. Besides Yugoslav enormous investments in industrialization and modernization of the country, slow growth of agricultural production contributed to the external imbalance since Yugoslavia had to import certain agricultural products, mostly wheat from the US, to improve the food and nutrition security and secure agricultural raw materials for the emerging industry.¹¹⁶ At the same time, Yugoslavia had to decrease its agricultural exports, especially during the drought years (1950, 1951, 1953–1957). The end of Western tripartite aid additionally underlined the problem of trade and payments deficit in Yugoslav economic policy.¹¹⁷ And even though the US continued to support Yugoslavia, from 1956 Belgrade sought to gradually reduce its dependence on the foreign economic assistance. There was a legitimate concern in the policy establishment that Yugoslavia would face severe financial and economic difficulties in the case of a sudden suspension of this aid.¹¹⁸ The determination to pursue the policy of non-alignment also played an important role in the decision to shift from the US foreign assistance towards an increased use of credits from international institutions.¹¹⁹ At the same time, the rapprochement with the Soviet Union and the Yugoslav anti-colonial policy towards the developing African and Asian countries caused concern in the Washington policy circles, and there was growing reluctance to continue substantial economic and military assistance to Yugoslavia.¹²⁰

The new situation regarding Western assistance required a new orientation in economic policy. The Party leadership had in September 1955 already decided to modify

¹¹⁶ Until 1959 Yugoslavia was completely dependent upon US wheat imports, which were crucial for the economic and social stability of the country. See more in Lampe et.al., *Američko-jugoslavenski ekonomski odnosi posle Drugog svetskog rata*, 33-37, 53-58.

¹¹⁷ At that time, another important source of external financing – payments of reparations – also ended. Yugoslavia received substantial war reparations from Italy (USD125 million), Hungary (USD50 million) and Germany (USD36 million in industrial equipment). The issue of German war reparations was finally resolved in 1973. S. Djordjevic, “Claims of Yugoslavia Against Germany on the Grounds of War Damages After World War Two,” *Annals of the Faculty of Law in Belgrade* 1-3 (1991); S. Djordjevic, “Second World War and the War Damages in Yugoslavia,” *Annals of the Faculty of Law in Belgrade* 6 (1994).

¹¹⁸ As Tito explained to the Yugoslav party leadership in June 1957, “this support is, in general, uncertain, problematic, and because of political reasons we should free ourselves from the dependence on foreign aid.” AJ, 507, ACK SKJ, Zapisnik sa proširene sednice IK CK SKJ, 27 June 1957, 9; Tito also warned about the political dimension of the US assistance at previous party meetings. CK SKJ, III/67, Stenografske beleške sa proširene sednice IK CK SKJ, 6 November 1956, 25.

¹¹⁹ Dragan Bogetić, “Jugoslavija i svetsko tržište kapitala. Američka finansijska podrška jugoslovenskim razvojnim programima krajem 50-tih godina,” *Tokovi istorije*, no. 3 (2010): 89-102; Dragan Bogetić, “Jugoslavensko bekstvo iz Evrope’. Novi ekonomski prioriteti nesvrstane Jugoslavije sredinom 50-ih godina,” *Istorija 20. veka* 20, no. 1 (2012): 163-178.

¹²⁰ In 1957 the US and Yugoslav governments signed the joint declaration to terminate military assistance. Tvrtko Jakovina, *Socijalizam na američkoj pšenici, 1948-1963* (Zagreb: Matica Hrvatska, 2002), 120.

economic policy and to strengthen the country's independent economic position.¹²¹ The solutions had to be sought not only in the expansion of trade but primarily in changing the country's investment policies and structural readjustment of the Yugoslav economy. The new economic policy was met with opposition in the highest ranks of government, most strongly from Vukmanović, who insisted on the policy of prioritizing heavy industry. By November 1957 the Party leadership decided to implement a new economic policy. Because of this, in 1958 Vukmanović left the government, while Mijalko Todorović, a member of the FEC and a staunch supporter of the new economic concept, took over responsibility for the economy.¹²²

The new policy aimed to strengthen Yugoslav economy in several ways. First, agriculture became the highest priority in the economic development to achieve food self-sufficiency, to ensure agricultural raw materials for industry and to increase exports of certain products. Second, investment policy was to be concentrated on industries that were competitive in international markets – primarily in light industry – to make early improvements in the balance of payments position. Third, it was decided to reduce domestic consumption and to tie the standard of living with the increase in productivity of the economy. Finally, a foreign trade policy orientation that was under consideration from 1955 was once more re-examined. At the meeting of enlarged LCY CC Executive Committee in June 1957, it was concluded that the primary aim of the foreign trade policy should be to widen Yugoslav international trade relations and to reorient its trade towards the Third World countries as to strengthen the economic independence of the country. According to Yugoslav estimates, these policies should have stabilized the balance of payments deficit. The more optimistic analysis suggested that this goal could be achieved by 1961. The Belgrade Institute for Foreign Trade, in a more pessimistic report, considered that this objective could be reached only by 1965.¹²³

¹²¹ AJ, 507, ACK SKJ, III/65, Zapisnik sednice IK CK SKJ, 28 September 1955, 101-106.

¹²² Vukmanović, *Revolucija koja teče 2*, 234-240, 250-252, 271-272, 289-291.

¹²³ AJ, 507, ACK SKJ, III/69, Sednica IK CK SKJ održana u Beogradu, 27 February 1957, 4; CK SKJ, III/71, Proširena sednica IK CK SKJ, 27 June 1957, 3-7.

Table 1: Investments in Yugoslav's Economic Sectors (1953-1963)

Year	1953-1957	1958	1959	1960	1961	1962	1963
Industry	56.1%	42.4%	41.8%	47.8%	51.6%	51.5%	52.3%
Agriculture	10.2%	17.4%	20.2%	15.2%	14.4%	17.5%	27.7%
Transportation	22.0%	27.1%	25.0%	23.6%	21.0%	18.0%	15.8%
Other	11.7%	13.1%	13.0%	13.4%	13.0%	13.0%	4.2%

Source: Nikola Čobeljić and Radmila Stojanović, *Teorija investicionih ciklusa u socijalističkoj privredi* (Beograd: Institut za ekonomska istraživanja, 1966), 160.

Besides increasing industrial exports to the Eastern bloc and developing African and Asian countries, the success of the new policy required raising agricultural exports to Western Europe.¹²⁴ These exports were crucial to hard currency earnings. By early 1960s, Yugoslavia had made expensive efforts to increase agricultural production and exports, and Belgrade was therefore vitally interested in maintaining its share of Western European markets. Efforts to reduce the external imbalance by increasing agriculture production and strengthening exports to Western Europe showed results for the first time in 1958. From 1960, Yugoslavia had a significant agricultural trade surplus in trade with the Western European countries (Table 2 shows the growth of agricultural exports in the balance of payments). Particularly important were beef exports. Already from the mid-1950s beef was one of the major Yugoslav export products to the Western European countries, particularly to Italy. In 1957, Yugoslav authorities recognized the growing consumption of beef and its deficit in Western Europe as an opportunity for the local meat sector.¹²⁵ Therefore, beef production was expanded in the following period. From 1960, beef exports accounted for more than half of the total value of primary-sector exports. The importance of beef export was to have a critical role in Yugoslavia's relations with the EEC in the 1960s and 1970s.¹²⁶

¹²⁴ By promoting industrial exports to these countries the Yugoslav government also wanted to avoid remaining a mere agrarian appendage to Western European countries. AJ, 507, ACK SKJ, II/20, Stenografske beleške sa Druge plenarne sednice CK SKJ, 18-19 November 1959, 107.

¹²⁵ AJ, 507, ACK SKJ, II/20, Stenografske beleške sa Druge plenarne sednice CK SKJ, 18-19 November 1959, 103; Oldrich Židek, "Ljudski faktor i proizvodna orijentacija u poljoprivredi," *Ekonomist* 16, no. 1 (1963): 253-254.

¹²⁶ Ivan Obadić, "A Troubled Relationship. Yugoslavia and the European Economic Community in détente", *European Review of History* 21, No. 2 (2014): 339-342.

Table 2: Impact of agriculture on balance of trade (in millions of US dollars)

Year	Balance of Trade	Balance of agricultural trade
1953	-209,4	-81,5
1954	-99	-10,8
1955	-184,3	-58,2
1956	-150,7	-57,1
1957	-266,7	-52,5
1958	-243,6	+9,2
1959	-210,5	-21,7
1960	-260,2	+83,6
1961	-341,1	+27,6
1962	-197,2	+20,5
1963	-266,3	-2,5
1964	-430,0	+38,8
1965	-200,0	+31,4

Source: Oskar Kovač, *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 193.

International developments, however, compromised the new Yugoslav economic strategy. In 1958, the Soviet–Yugoslav honeymoon ended. The deterioration of their relationship and ideological confrontation from late 1956 revealed the naivety in Yugoslav wishes to transform the Soviet Empire into a Commonwealth of Socialist states. Simultaneously, Soviet leaders realized that Yugoslavia would not return to the Eastern Bloc.¹²⁷ The Yugoslav position of an independent Communist country pursuing a model of self-management socialism combined with the political relaxation of Soviet bloc relations, however, weakened Soviet influence in Eastern Europe as the Poznan uprising in Poland and the Hungarian revolution of 1956 had revealed, and in addition discredited Moscow's objective of maintaining leadership within the socialist world. Therefore, Khrushchev was

¹²⁷ Veljko Mićunović, *Moskovske godine 1956/58* (Zagreb: Liber, 1978); See also Rajak, *Yugoslavia and the Soviet Union in the Early Cold War*, 147, 149; Dennison Rusinow, *The Yugoslav experiment, 1948-1974* (London: C. Hurst for the Royal Institute of International Affairs, 1977), 93-94.

unable to further tolerate the Yugoslav policy of equidistance. The second Soviet–Yugoslav confrontation that followed after the 7th Congress of the LCY in April 1958 demonstrated that during these critical times, the Soviet Union would use trade and economic relations as an instrument of political pressure on Yugoslavia. In May 1958 Moscow terminated the financial assistance agreements from 1956 (in fact, their implementation had already been postponed in December 1956 after the Hungarian Uprising).¹²⁸

Yet, Khrushchev had learned from Stalin’s miscalculation and avoided a complete breakdown of the relationship. Although Soviets canceled the financial arrangements, the trade relations continued. The Yugoslav leadership had learned the underlying message as well. In May 1958, at the meeting of Executive Committee of the LCY CC, when commenting the Yugoslav economic relationships with the Soviet Union and other socialist countries, Tito concluded that “they are a very unreliable partner.”¹²⁹ Next year, during his unofficial visit to the Soviet Union, Vukmanović was entirely clear at the meeting with Khrushchev and Mikoyan: “It turns out that you have not given up the old Stalinist policies, that as soon as something goes wrong in political relations, you suspend economic ties, cancel contracts (...) and thereby, as a matter of fact, resurrect Stalin's policy of blockade and pressure.”¹³⁰

Simultaneously, the political crises in a relationship with some Western European countries seriously threatened Yugoslavia’s international position. First, in 1956, relations with France and Britain deteriorated after Tito supported Egyptian leader Gamal Abdel Naser during the Suez Crisis. While Anglo–Yugoslav political and economic ties had ameliorated until 1958, relations with France worsened in the following period due to Belgrade’s anti-colonial policy and condemnation of French policy in Algeria.¹³¹ In October 1957 a much more severe crisis broke out with West Germany when the Yugoslav government diplomatically recognized the German Democratic Republic. In retaliation, West Germany had immediately broken off diplomatic relations with Belgrade. Tito’s decision to recognize East Germany, which was intended to improve Yugoslav relations with the Soviet bloc, was

¹²⁸ Soviet–Yugoslav relations were compromised after the so-called “Nagy affair.” See more about the deterioration of Soviet–Yugoslav relations in 1956–58 in Rajak, *Yugoslavia and the Soviet Union in the Early Cold War*, 199-205.

¹²⁹ AJ, 507, ACK SKJ, III/80, Sednica IK CK SKJ, 24.05.1958, 5.

¹³⁰ Vukmanović, *Revolucija koja teče 2*, 375.

¹³¹ The crisis in Franco–Yugoslav relations was especially damaging since the socialist-led government of Guy Mollet was the strongest supporter in the West of the new Yugoslav foreign policy towards the Soviet Union. Bogetić, *Nova strategija jugoslavenske spoljne politike 1956-1961*, 99, 131, 135, 145, 246-247.

based on a serious miscalculation – that the Bonn government will not apply the Hallstein doctrine of breaking off diplomatic relations with any state that recognized the GDR. Although Yugoslavia played an important role in the West German policy towards the Eastern bloc, Chancellor Konrad Adenauer's government was determined to set an example for other countries, as Yugoslavia was the first to challenge the Hallstein doctrine.¹³² The cessation of diplomatic relations, however, did not have a significant impact on the economic relations between two countries. Other Western powers, especially the US, were concerned not to compel Yugoslavia to divert its trade to the Eastern bloc.¹³³ Still, by 1961 Italy was to replace West Germany as Yugoslavia's largest trading partner.¹³⁴ More importantly, in the next decade, the Hallstein doctrine was to be a major impediment to the establishment of closer Yugoslav relations with the EEC.

By 1959 it was clear that Belgrade's policies were not panning out as initially planned. Besides the crisis in relations with the Soviet Union and Western European countries, the relative increase in Yugoslavia's trade with the Third World countries did not substantially lessen the importance of Western Europe. Failure to reorient its foreign trade was due to several reasons. First, even though there was a consensus within the political leadership regarding international trade policy, there was widespread skepticism across the Yugoslav economic establishment regarding government policy. Business circles considered Europe as a primary trading area for the Yugoslav economy. In 1957 when Vukmanović proposed trade support loans to expand trade with the developing countries, they stood against the policy.¹³⁵ In January 1959, at the session of the FEC Coordinating Committee, Kardelj castigated the Committee for Foreign Trade for the report which stressed as a priority increasing Yugoslav exports to European countries and the US, while identifying Asian and African markets as being only of secondary importance. Kardelj drew attention not only to political but also to economic interests to reorient trade to these countries as "we are going to face difficulties in trading relations with Europe and America because of various regional organizations."¹³⁶ Later, in March 1959, at the meeting of the LCY CC Executive Committee, Tito criticized the failure to increase trade relations with African and Asian countries,

¹³² Dušan Nećak, *Hallsteinova doktrina i Jugoslavija* (Zagreb: Srednja Europa, 2004), 18-19, 74-75, 126.

¹³³ FRUS, 1955-1957, Central and Southeastern Europe, Volume XXVI, Memorandum of a Conversation, Department of State, Washington, October 15, 1957, 787-788.

¹³⁴ AJ KPR, 837, I-3-a/44-19, Informacija o ekonomskim odnosima sa Italijom, 15 Septembar 1962, 1.

¹³⁵ Vukmanović, *Revolucija koja teče* 2, 333.

¹³⁶ AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o predlogu programa regionalnog usmjeravanja izvoza i uvoza za 1959 godinu, 9 January 1959, 8-9.

especially with Egypt.¹³⁷ The same month the Committee for Foreign Trade drafted a document about the perspectives to expand trade with these countries. The FEC Committee for the Economy discussed this issue and concluded that Yugoslavia should increase its trade with African and Asian countries in the following period by providing trade credits.¹³⁸ However, in March 1962, at the meeting of enlarged LCY CC Executive Committee, when explaining the failure of the Yugoslav policy, Vukmanović pointed out that “the economic apparatus did not approve (this policy). The economic apparatus considered that Africa and Asia are not important to us, but Europe. And things have stopped. I was utterly powerless to improve our relationships any further.”¹³⁹

Vukmanović’s analysis failed to capture some of the most important factors that led to the dismal performance of the Belgrade government’s policy. Yugoslav trade with the Third World countries in the late 1950s and during the 1960s was most negatively influenced by the uncompetitiveness of Yugoslav industrial production. Its expensive, small-scale industry that produced only a very limited number of products was one of the major limitations for expanding trade relations with these countries since it could not compete with Western industrial exports. Equally, the Soviet economic offensive in the Third world countries had an adverse impact on Yugoslav trade interests. Finally, the lack of adequate credit facilities and efficient trading networks, both essential to access emerging markets, undermined the foreign trade strategy.¹⁴⁰ Thus, in the late 1950s the Yugoslav government had to re-establish closer economic relations with the US and Western European countries since both in the financial sphere as well as in trade they remained vital to the country’s economy. For these reasons the emergence of the EEC and the subsequent creation of the EFTA were carefully observed by the Yugoslav policy-makers as they were perceived as a serious threat to the country’s economic position.

¹³⁷ AJ, 507, ACK SKJ, III/83, Zapisnik sa sednice IK CK SKJ, 20 March 1959, 23-28.

¹³⁸ AJ KPR, 837, II-5-c-2/100, Informacija o diskusiji u odboru za privredu SIV-a po pitanju perspektivnog razvitka spoljnotrgovinske razmene i ekonomske saradnje sa zemljama Azije i Afrike, 23 March 1959, 1-4; KPR, II-5-c-2/100, Informacija o perspektivnom razvoju robne razmene i ekonomske saradnje sa zemljama Azije i Afrike od 1959-1961 g., 28 May 1959, 1-12.

¹³⁹ Zečević, ed., *Početak kraja SFRJ*, 77.

¹⁴⁰ AJ KPR, 837, III-B-1-a, Regionalni problemi naše spoljnotrgovinske razmene, 25.11.1967, 7-8.

Table 3: The Deficit on Current Account and its Coverage in 1947-1960 (in millions of US dollars)

Year	Deficit on current account	Economic aid	Special credits for deliveries of farm surpluses	Long-term investment loans	Other aid	Total aid	Other financial sources including monetary gold	Percentage of deficit covered by aid
1947	-109.0	-	63.0	-	-	63.0	46.0	57.8
1948	-51.0	-	3.2	-	-	3.2	47.8	6.3
1949	-131.1	-	5.9	-	-	5.9	125.3	4.5
1950	-119.7	6.2	3.3	-	37.4	46.9	72.8	39.2
1951	-235.5	148.6	3.2	-	14.0	165.8	69.7	70.4
1952	-129.0	101.7	0.3	-	14.1	116.1	12.9	90.0
1953	-228.0	137.2	0.3	-	23.5	161.0	67.2	70.6
1954	-111.2	90.2	0.3	-	12.5	103.0	8.2	92.6
1955	-177.4	104.0	5.4	-	2.0	111.4	66.0	62.8
1956	-122.2	72.4	8.4	-	-1.5	79.3	42.9	64.9
1957	-213.4	5.0	20.8	112.2	-2.9	135.1	78.3	63.3
1958	-183.7	3.6	26.4	78.0	-4.3	103.7	80.0	56.5
1959	-169.1	14.7	20.4	85.4	-4.7	115.8	53.3	68.5
1960	-209.7	8.5	16.3	14.0	11.7	50.5	159.2	24.1
	-2,190.2	692.1	177.2	289.6	101.8	1,260.7	929.5	57.6

Source: Slobodan Branković, *Impact of Foreign Aid on the Postwar Development of Yugoslavia* (Geneva: UNESCO, 1962), 45.

1.2.3. Yugoslavia and Western Europe of Six and Seven

The first reactions of the Belgrade authorities to the signing of the Treaty of Rome were circumspect. Yugoslav policy-makers considered the failure of the plan to create the EDC as marking the end of supranational politics in Western Europe. The creation of the EEC, therefore, impelled them to reconsider their policy towards Western European integration. This turned out to be a slow process. Yugoslavia had to steer carefully when dealing with Western European economic integration. Yugoslavia's chief concern was to ensure that the deepening of Western European integration would not have an adverse effect on Yugoslav trade with Western European countries.

The Ministry of Foreign Affairs played a major role in the crafting of initial policy towards the integration process in Western Europe. According to the first analyses of the Ministry, the EEC had positive and negative aspects. On the positive side, the development of Western European regional economic integration was necessary to address the problems of economic development and growth within a wider, global economic order. More importantly, the economic strengthening of Western Europe would lessen its dependence on the US, which could potentially result in the emergence of Europe as an independent "third force" in world affairs.¹⁴¹ Finally, the economic growth fostered by greater economic integration should lead to an offsetting rise in imports as the Western European economies were heavily dependent on foreign trade, especially on imports of raw materials.¹⁴²

Regarding the negative side, Yugoslav diplomats primarily accentuated the bloc logic and political-ideological considerations of the Western European economic integration process. They viewed the EEC as yet another instrument of the Cold War, albeit this time on a much more realistic basis of common economic interests of the Western European countries. From an economic perspective, the inward-looking orientation of the European economic organizations was worrisome for them for a number of reasons. First, and most obvious, the declared goal of establishing an EEC common external tariff, commercial policy, and protectionist agricultural policies were most alarming. The Yugoslav government could not estimate the exact effects of these policies, but merely the fact that in 1957 Yugoslav agricultural exports to the EEC accounted for 80% of overall agricultural exports

¹⁴¹ DA MSP RS, PA, f-74, d. 11, Ocena novih akcija u domenu zapadnoeuropske integracije, 8 June 1957, 1.

¹⁴² DA MSP RS, PA, f-76, d. 12, 414539, Osvrt na neka pitanja zapadnoeuropske integracije, 26 July 1957, 2-4.

called for the highest attention to the future development of European integration.¹⁴³ Besides, it was evident that the Yugoslav economy would have to adjust to the anticipated productivity growth along with improved economic efficiency and competitiveness of the Western European economies. In addition, the EEC increased the bargaining power of its member states in bilateral trade negotiations with third countries.¹⁴⁴ The EEC development policy was yet another matter of contention. The Yugoslav Foreign Ministry considered the EEC economic assistance and privileged trade relations with the former colonies of the member states as a continuance of old colonial policies and a way to protect European, primarily French, economic interests and positions in the former colonies.¹⁴⁵ Finally, exclusion from the Western European economic bloc would, in their view, be damaging to the Yugoslav economy due to both trade creation and trade diversion effects.¹⁴⁶

Yugoslav diplomacy was even more concerned with the British plan for a European-wide free trade area, the FTA. Already in 1956, the British government had begun to explore ways to neutralize the effects of the evidently discriminatory nature of the emerging EEC. To that end, London came up with the initiative for the FTA among the OEEC members, but without the accompanying supranational institutional apparatus.¹⁴⁷ Such an intergovernmental model, however, was not acceptable to France, which insisted on an institutionally strong, geographically limited community framework.¹⁴⁸ For this reason, France rejected the more limited FTA concept in favour of the more wide-ranging vision of European integration.¹⁴⁹ Nonetheless, as Laurent Warlouzet argues, in the 1956–58 period it was unclear which option would prevail – since some major European countries favoured the FTA project, it could have become the principal institution of European cooperation.¹⁵⁰

¹⁴³ DA MSP RS, PA, f-76, 424618, Stalna delegacije FNRJ pri OEEC – Pariz: Spoljno-trgovinski aspekti Evropske ekonomske zajednice, 20 November 1957, 50.

¹⁴⁴ DA MSP RS, PA, f-74, d. 14, 44022, Zapisnik sa sednice kolegija održane 26. januara 1957, 5-6.

¹⁴⁵ DA MSP RS, PA, f-74, d. 12, 46998, Informacija o aktuelnim pitanjima zapadnoeuropske ekonomske suradnje i integracije, 2 April 1957, 8; PA, f-74, d. 11, 427518, Neka aktuelna pitanja zapadnoeuropske ekonomske saradnje i integracije; Ocena novih akcija u domenu zapadnoeuropske integracije, 8 June 1957, 3.

¹⁴⁶ DA MSP RS, PA, f-76, 424618, Stalna delegacije FNRJ pri OEEC – Pariz: Spoljno-trgovinski aspekti Evropske ekonomske zajednice, 20 November 1957, 43-44.

¹⁴⁷ Wendy Asbeek Brusse, “Liberalization, Convertibility, and the Common Market,” in *Origins and Evolution of the European Union*, ed. Desmond Dinan (Oxford: Oxford University Press, 2006), 103-104.

¹⁴⁸ See more in Craig Parsons, “The Triumph of Community Europe,” in *Origins and Evolution of the European Union*, ed. Desmond Dinan (Oxford: Oxford University Press, 2006), 122-124.

¹⁴⁹ See more in Frances M. B. Lynch, “De Gaulle's First Veto: France, the Rueff Plan and the Free Trade Area,” *Contemporary European History* 9, no. 1 (2000): 111-135.

¹⁵⁰ Laurent Warlouzet, “De Gaulle as a Father of Europe: The Unpredictability of the FTA's Failure and the EEC's Success (1956–58),” *Contemporary European History* 20, no 4 (2011): 419-420.

The Yugoslav Ministry of Foreign Affairs considered that the proposal put forward by the British government had a real chance of success. Although the FTA would operate in a much looser institutional framework, the plan posed a greater threat to Yugoslav foreign trade since it aimed to create a large free trade area covering all OEEC countries.¹⁵¹ In this way, even the less developed, agricultural South European countries would have direct access to Western European markets while Yugoslavia would stay on the sidelines. In effect, such a situation would gravely jeopardize agricultural exports to Western markets.¹⁵² Throughout 1957 there was a growing awareness in the Yugoslav establishment that the country would have to find a way to address these dangers. However, faced with the unpredictable future development of the EEC and the FTA, at the time when Yugoslavia was still not encountering barriers to trade with them, the government responded to the fluid situation in Western Europe cautiously. First, Yugoslavia used bilateral contacts and trade discussions to address the impending discrimination in a trade with Western European countries. Second, Yugoslav policy-makers decided to strengthen multilateral relations with the West through intensified cooperation with the OEEC and the GATT.

In November 1957, a consensus was reached within the Yugoslav establishment that the country should find a way to associate with the EPU.¹⁵³ Although the main question now was not “whether we are going to associate or not (with the EPU), but how we are going to achieve this”,¹⁵⁴ the debate on the most appropriate model for association with the EPU continued throughout 1958. The end of the EPU in December 1958 ended this discussion, as Yugoslavia could not participate in the European Monetary Agreement (EMA). First, Yugoslavia was not a full member of the OEEC; and second, Yugoslavia did not have enough gold and hard currency reserves to participate in such a scheme. As a consequence, a solution had to be found to deal with the new situation in trade with Western European economies outside the framework of EMA.¹⁵⁵

¹⁵¹ DA MSP RS, PA, f-74, d. 11, 427518, Neka aktuelna pitanja zapadnoeuropske ekonomske saradnje i integracije; Ocena novih akcija u domenu zapadnoeuropske integracije, 8 June 1957; PA, f-75, 410892, Informacija o novim akcijama Zapadne Europe, 17 May 1957, 2.

¹⁵² DA MSP RS, PA, f-76, 424618, Stalna delegacije FNRJ pri OEEC – Pariz: Spoljno-trgovinski aspekti Evropske ekonomske zajednice, 20 November 1957, 50.

¹⁵³ DA MSP RS, PA, f-76, d. 17, 424354, Beleška sa sastanka Radne grupe održanih 13 i 14 novembra 1957. godine, 1.

¹⁵⁴ Slovenian economist Ivo Fabinc made this statement at the meeting in the Foreign Ministry in April 1958. DA MSP RS, PA, f-94, d. 10, 431377, Beleška sa sastanka u DSIP-u održanog 3. aprila 1958. god. po pitanju EPU, 3.

¹⁵⁵ DA MSP RS, PA, f-91, d. 17, 44121, Telegram Stalne delegacije Jugoslavije pri OEEC DSIP-u, 9 Januar 1959, 2-3.

Simultaneously, the government began to review its participation in other vertical committees of OEEC. Most importantly, in January 1958 it decided to ask for associate membership in the Committee for Agriculture and Food.¹⁵⁶ The decision was based on assessment that by participating in the work of Committee Yugoslavia would be better informed about the development of Western European agriculture production and situation on its markets; that the OEEC could provide material and other help for development of Yugoslav agriculture in undeveloped areas; and that Yugoslavia could put forward ideas and suggestions regarding particular issues and policies discussed in the Committee. Furthermore, since at that moment the lack of agreement on the future of European integration between the OEEC member states resulted in a critical cleavage, and even the possible economic division of Western Europe, the Yugoslav government wanted to take part in the activity of Committee since it was not clear what role it would have in the reorganization of Western European agriculture. Next year Yugoslavia decided to take part in the work of the Office of Scientific and Technical Personnel.¹⁵⁷ Furthermore, Yugoslavian delegates regularly participated in the sessions of the OEEC Tourism, Energy and Committee for Applied Research, and occasionally in the work of other committees and working groups. The Yugoslav Federal Institute of Statistics also established cooperation with the OEEC Economics and Statistics Directorate. Finally, from December 1960, Yugoslavia took part in the work of the Economic Committee.¹⁵⁸

On the whole, even though Yugoslavia had only observer status in the OEEC, until 1961 actual Belgrade participation went well beyond mere observation. And regardless of the poor coordination of the activities in regard to cooperation with the OEEC, Yugoslavia directly and indirectly benefited from it in many ways, most notably in acquiring certain advantages in trade with the OEEC countries. Therefore, in 1961 the Yugoslav authorities were interested to continue cooperation with a new organization, the OECD,¹⁵⁹ which

¹⁵⁶ DA MSP RS, PA, f-93, d. 6, 42326, Pitanje pristupanja Komitetu za poljoprivredu OECE, 30 Januar 1958; PA, f-93, d. 6, 42325, Zabeleška u pogledu našeg intenzivnijeg učešća u radu Komiteta ministara za poljoprivredu i ishranu OEEC, 2-3; PA, f-76, d. 18, 425805, Stalna delegacija FNRJ pri OEEC: Uključenje u rad Komiteta ministara za poljoprivredu, 7-8.

¹⁵⁷ DA MSP RS, PA, f-94, d- 6, 426664, Stalna delegacija FNRJ pri OEEC: Naša saradnja sa Biroom OEEC za naučne i tehničke kadrove (STP), 12 October 1959.

¹⁵⁸ DA MSP RS, PA, f-113, d. 8, 417333, Pitanje naše saradnje sa OECD, 30 May 1961, 3.

¹⁵⁹ In 1960 the OEEC was transformed into the Organisation for Economic Co-operation and Development (OECD). Since the US and Canada joined the organization alongside 18 European countries, the reach of the new organization became more than regional, but remained less than global. Peter Carroll and Aynsley Kellow, *The OECD: a study of organisational adaptation* (Cheltenham, UK: Edward Elgar, 2011), 201; Richard T. Griffiths, "An Act of Creative Leadership": The End of the OEEC and the Birth of the OECD," in *Explorations*

Yugoslav policy-makers considered as a more convenient partner for cooperation as it was a geographically broader and institutionally more flexible organization.¹⁶⁰

In 1958 Belgrade began to reconsider the Yugoslav position in the GATT as well.¹⁶¹ Already in 1950 Yugoslavia had become an observer at the organization. Now, however, a closer association with the GATT would provide Yugoslavia with trade-protection instruments against the looming discrimination in trade with Western Europe.¹⁶² For this reason, the Belgrade government requested associate membership in 1958. The following year Yugoslavia accepted the general goals and guiding principles of the organization as a basis to develop mutual trade relationship with other GATT members and requested that preferential treatment be granted to it.¹⁶³ In May 1959 GATT member states approved a form of associate membership for Yugoslavia, which thereby became the first communist state to establish a formal relationship with the organization.¹⁶⁴

Notwithstanding its increased integration into the Western economic system, the division of Western Europe into two regional trading blocs in 1960 further raised concerns among Yugoslavia's policy-makers about the future prospect of trade with its key foreign market. Following the failure of the FTA negotiations in 1958, Britain gathered the other six OEEC member states that were unwilling or unable to join the EEC in order to establish a trade bloc based on the principle of intergovernmental cooperation. EFTA was created by a convention signed in Stockholm on 4 January 1960 (it entered into force in May 1960) with the aim to counterbalance the EEC by promoting economic cooperation and free trade of industrial products in Europe (agriculture was excluded from the arrangement) but without

in *OEEC history*, ed. Richard Griffiths (Paris: Organisation for Economic Co-operation and Development, 1997), 235-236.

¹⁶⁰ DA MSP RS, PA, f-113, d. 8, 417333, Pitanje naše saradnje sa OECD, 30 May 1961, 3-7.

¹⁶¹ DA MSP RS, PA, f-74, d. 11, 427518, Neka aktuelna pitanja zapadnoeuropske ekonomske saradnje i integracije; Ocena novih akcija u domenu zapadnoeuropske integracije, 8 June 1957, 7; PA, f-76, 424618, Stalna delegacije FNRJ pri OEEC – Pariz: Spoljno-trgovinski aspekti Evropske ekonomske zajednice, 20 November 1957, 50-51.

¹⁶² The Treaty of Rome did not comply with the GATT. Other GATT members insisted that these provisions had to be eliminated. The special GATT committee was established to assess the potential discriminatory effects of the Treaty. By reason of strong US support for the EEC, no formal decision was made by the committee. Lucia Coppolaro, *The Making of a World Trading Power: The European Economic Community (EEC) in the GATT Kennedy Round Negotiations (1963-67)* (Farnham: Ashgate Publishing Ltd, 2013), 18-20.

¹⁶³ The EEC member states supported the Yugoslav association with the GATT. HAEU, CM2/1959-61, 49e réunion du Comité des représentants permanents, Bruxelles, 12 March 1959, 22-23; CM2/1959-66, 52e réunion du Comité des représentants permanents, Bruxelles, 9 April 1959, 17-19.

¹⁶⁴ AJ KPR, 837, III-B-2-b, br. kut. 74, Referat o potpisivanju Deklaracije o odnosima GATT-a i Jugoslavije, 25 July 1959, 1-2. See also: Radovan Vukadinović, "Mehanizam djelovanja GATT-a i međunarodna ekonomska suradnja", *Politička misao* 2, no. 3 (1965): 142.

common policies. In fact, the primary objective of EFTA was to reach a wider trade settlement with the EEC.¹⁶⁵

Western European economic division was not the only concern of the Yugoslav authorities. The revival and strengthening of COMECON in the late 1950s also prompted the government once more to reevaluate its policy towards European integration. The fear of Yugoslav policy-makers of dealing with competing trading blocs in Europe now became a reality. The situation was even more delicate since in this period the balance of payments problem became the most acute economic difficulty for the government. To address the balance of payments deficit Yugoslavia had to expand its exports, especially to Western Europe. In the second Five Year Plan (1957–1961), called the “Perspective Plan”, planners anticipated a significant expansion of agriculture exports to Western Europe, especially to the EEC member countries. They also expected an increase of industrial products exports. The economic division of Western Europe into two trading blocs and their discriminatory nature did not enhance the Yugoslav position in this regard.

As a consequence, the stability of trading relations with the Western European countries became an immediate issue for the Belgrade government. At that point, it was evident that bilateralism in trading relations with these countries was becoming inadequate to protect Yugoslav foreign trade interests. The government, however, had circumscribed policy options of addressing the situation regarding the Western European integration process. For ideological and political reasons formal membership was clearly impossible. The limits of Yugoslav cooperation with the Western European economic organizations were already defined within the framework of the association with the OEEC. And, with uncertainty surrounding the outcome of the whole process and the potential impact for Yugoslavia, the Yugoslav establishment was becoming increasingly aware that they had to pursue alternative policies in order to broaden and expand economic relations with Western Europe and to find the most appropriate way how to integrate into the emerging Western European multilateral trading system.¹⁶⁶

¹⁶⁵ Piers N. Ludlow, *Dealing with Britain. The Six and the First UK Application to the EEC* (Cambridge: Cambridge University Press, 1997), 26-42; Wolfram Kaiser, “Challenge to the Community: The Creation, Crisis and Consolidation of the European Free Trade Association, 1958-1972,” *Journal of European Integration History* 3, no. 1 (1997): 7-22.

¹⁶⁶ AJ KPR, 837, III-B-2-b, br. kut. 74, Integraciona kretanja u Zapadnoj Evropi, 16 May 1960, 3-5.

1.2.4. First contacts with the EEC and EFTA

In the early 1960 the government began to examine policy options in order to reduce the negative effects of the EEC and EFTA on Yugoslav exports. There was a significant difference between these two organizations regarding their impact on Yugoslav trade. Namely, even though the EEC presented a more serious threat to the economy over the long-term, its short-term impact was very limited since the EEC applied 10 per cent tariff reductions for third countries from December 1958. Also, at that moment the EEC common external tariff and Common Agricultural Policy were still to be settled. On the other side, EFTA members undertook mutual tariff reductions of 20 per cent (on manufacturers only) without any concessions to third countries.¹⁶⁷ Furthermore, even though agriculture was excluded from EFTA, in the process of negotiations, Denmark managed to secure certain concessions for its agricultural exports to Britain, Sweden and Switzerland. And while the bilateral agreements with Sweden and Switzerland were not detrimental to Yugoslav trade, the Anglo–Danish Trade Agreement of July 1959 severely impeded Yugoslav agricultural exports to the British market.¹⁶⁸ In the long run, however, the prospect of the EEC common trade and agricultural policies was much more alarming for the government, not only due to the character of these policies, but also because of the greater importance of the EEC market for Yugoslav exports.¹⁶⁹ The greatest concern for the authorities, however, was the prospect of an EEC–EFTA trade agreement that would further discriminate Yugoslav exports to almost all Western Europe countries. In Yugoslavs' view, EFTA was a provisional solution with the main goal to compensate the detrimental effects of the Common Market on the foreign trade of its member states and to achieve an agreement with the EEC on mutually advantageous trading relations.¹⁷⁰

The Yugoslav more positive attitude towards EFTA was due primarily to political and institutional factors. Politically, for Yugoslavia, cooperation with the Scandinavian social democratic governments and neutral European countries – Sweden, Switzerland, and Austria – was a far more acceptable solution. And while on the one side the Yugoslav relations with

¹⁶⁷ DA MSP RS, PA, f-93, d. 4, 43276, Beleška o integracionim kretanjima u Zapadnoj Europi i neki predlozi za našu aktivnost, 5 Februar 1960, 8.

¹⁶⁸ DA MSP RS, PA, f-93, d. 6, 35476, Beleška o poljoprivredi u zapadnoeuropskoj integraciji, 26 October 1959, 3-4.

¹⁶⁹ DA MSP RS, PA, f-93, d. 4, 43276, Beleška o integracionim kretanjima u Zapadnoj Europi i neki predlozi za našu aktivnost, 5 Februar 1960, 8.

¹⁷⁰ AJ KPR, 837, III-B-2-b, Integraciona kretanja u Europi, 16. maj 1960, 2.

France and Germany were strained in this period, on the other side its relations with Britain were cordial. Institutionally, partnership with an organization based on the intergovernmental model of cooperation in which member states had substantial independence in conducting foreign trade policy was much more attractive for the independently-oriented communist state. On the other hand, the fact that EFTA was relatively less important in Yugoslav foreign trade, and that agriculture was excluded from the free trade provisions made the cooperation with EFTA less appealing.¹⁷¹

By April 1960 Yugoslav policy-makers defined two aims of foreign trade policy regarding the EEC and EFTA.¹⁷² The first was to achieve treatment in trading with these blocs equal to trading arrangements of other third countries. The second was to assure that the further strengthening of the EEC and EFTA would not have an adverse impact on the Yugoslav trading relations with them.¹⁷³ Simultaneously, the government decided to open discussions about forms of cooperation with EFTA.¹⁷⁴ By approaching EFTA, Belgrade intended to make entirely clear its preference for the intergovernmental model of European integration. Additionally, the government considered that an agreement with EFTA would strengthen its negotiation position vis-à-vis the EEC. Regarding the EEC, Yugoslav authorities decided first to raise the issue of economic consequences of the EEC on Yugoslavia in bilateral talks with Italy, France and Netherlands, and only then to approach the Commission.¹⁷⁵

Already in mid-April 1960 the Yugoslav government initiated consultations with the EFTA member states, apart from Portugal, since Yugoslavia did not have official diplomatic relations with Lisbon. Yugoslavia in its diplomatic action relied heavily on close connections with European neutrals – Austria, Switzerland and Sweden. In fact, already in early 1960 Austrian Foreign Minister Bruno Kreisky, in an effort to connect Yugoslavia with EFTA,

¹⁷¹ DA MSP RS, PA, f-95, d. 14, 435442, Beleška o našim odnosima sa EFTA, 5 April 1960, 2-7.

¹⁷² At that point the foreign policy establishment intensively debated over the Yugoslav policy towards the EEC and EFTA. In February 1960, the newly created FEC Committee for Economic Relations with Foreign Countries discussed the integration process in Western Europe. At the meeting earlier conclusions that Yugoslavia should more actively pursue its policies to protect its economic interests multilaterally, by increasing cooperation with the OEEC and the GATT, and bilaterally in contacts with member states were reinforced. The Committee also concluded that the government should seek for some kind of “elastic form” of cooperation with these two groups, if possible along the lines of Yugoslav cooperation with the OEEC. DA MSP RS, PA, f-93, d. 1, 435277, Beleška o sednici Odbora SIV-a za spoljne ekonomske odnose od 22.II.1960, 1-3.

¹⁷³ DA MSP RS, PA, f-95, d. 2, 44403, Jugoslavija, ZT i EFTA, 18 Februar 1960, 1, 4-5; PA, f-95, d. 14, 435442, Beleška o našim odnosima sa EFTA, 5 April 1960, 1.

¹⁷⁴ At the meeting chaired by the Under-Secretary of State for Foreign Affairs Bogdan Crnobrnja on 2 April 1960, the concrete plan of Yugoslav activities concerning Western European integration was finally settled. DA MSP RS, PA, f-95, d. 14, 435426, Plan naših akcija u vezi zapadnoeuropske integracije, 2 April 1960.

¹⁷⁵ Ibid.

proposed a meeting of three EFTA neutral member states and Yugoslavia.¹⁷⁶ The Yugoslav government, however, disregarded this initiative as Kreisky's mediator role did not suit Yugoslav interests.¹⁷⁷ The Yugoslav initiative was discussed at the EFTA Lisbon Ministerial meeting in May 1960. According to Yugoslav sources, the EFTA was interested in Yugoslav association with the organization by reason of increasing its international prestige towards both the US and the EEC, in spite of some misgivings regarding the character of the Yugoslav economic system and exclusion of agricultural trade from the EFTA Convention.¹⁷⁸

Regardless of positive signals by some member states, the Yugoslav initiative ended in stalemate. First, EFTA member countries dismissed Yugoslav demands to pursue negotiations in a bilateral format, as they feared that Yugoslavia might use such arrangement to extort additional concessions from them.¹⁷⁹ Furthermore, the EFTA was only willing to open general consultations with Yugoslavia, while Belgrade wanted to enter into much more substantial negotiations. Yugoslavia was not only ready to officially recognize the EFTA, but also to discuss forms of cooperation, the problem of trade discrimination and Yugoslav exports of agricultural products to EFTA member countries.¹⁸⁰ Most importantly, Britain showed no particular interest in the Belgrade initiative.¹⁸¹ In August 1960 Yugoslavia tried to end the deadlock and establish contacts with the EFTA. However, at that moment the EFTA was searching for an acceptable solution for Finland's association with the organization, and for that reason Yugoslavia was once more sidelined. By the time Finland became an EFTA associate member in 1961, Britain had already decided to apply for EEC membership. Britain's turn to the EEC had a significant impact on the Yugoslav position towards the EFTA and the EEC. For Yugoslavia, the EFTA had now become much less relevant in pursuing its European policy. In fact, in 1961 the government was deeply skeptical about the

¹⁷⁶ DA MSP RS, PA, f-95, d. 2, 44094, Telegram Ambasade FNRJ iz Bona DSIP-u, 12 February 1960; PA, f-95, d. 4, 49062, Telegram Ambasade FNRJ u Beču DSIP-u, 2 April 1960; PA, f-93, d. 10, 49311, Zabeleška Janeza Stanovnika o razgovoru sa gospodinom Kenneth Youngerom na večeri kod britanskog ambasadora 2.IV.1960. god. i na izletu Oplenec 3. aprila; PA, f-95, d. 5, 410994, Zabeleška o razgovoru ambasadora Jože Zemljaka sa austrijskim ministrom inostranih poslova dr. Bruno Kreisky-m, dana 13. aprila 1960.

¹⁷⁷ DA MSP RS, PA, f-95, d. 6, Telegram III. odeljenja DSIP-a Ambasadi FNRJ u Londonu, 20 May 1960.

¹⁷⁸ DA MSP RS, PA, f-95, d. 14, 435738, Potsetnik o našoj aktivnosti u vezi sa EAST, 9. juna 1960, 1.

¹⁷⁹ Ibid., 1-2.

¹⁸⁰ DA MSP RS, PA, f-95, d. 14, 435817, Beleška o odnosima sa EFTA, 28 June 1960, 1; PA, f-95, d. 15, 435995, Beleška o odnosima FNRJ-EFTA, 16 September 1960.

¹⁸¹ DA MSP RS, PA, f-112, d. 25, 440100, Beleška o stanju u zapadnoeuropskoj integraciji, 26 October 1961, 4.

future of the organization. Therefore, the question of Yugoslavia's relationship with the EFTA was side-tracked.¹⁸²

First unofficial diplomatic contacts between Yugoslavia and the EEC occurred in late 1959. At that moment, in mid-September 1959, the Ministry of Foreign Affairs raised the initiative for appraisal of the Yugoslav policy towards the EEC. The Ministry suggested to the FEC that Yugoslavia should initiate preliminary consultations with the EEC and its member states in order to examine EEC trade barriers and regulate their trade.¹⁸³ In its analysis, the Ministry recognized that "the EEC has become a reality that must be taken into consideration seriously and permanently."¹⁸⁴ Furthermore, the Ministry drew attention to the urgency of this matter not only to ward off negative consequences for economy, but also since "at the present moment there is the greatest probability that the EEC and its member states will come forward and meet our demands, because they need to manifest their willingness to regulate emerging problems with third countries and to affirm themselves internationally."¹⁸⁵ The Foreign Ministry assessment was only partially correct. The Commission indeed considered relations with Yugoslavia significant since they could endorse the international standing of the EEC because of Yugoslavia's growing prestige among the Third World countries. At the same time, as the EEC was confronted with increasing criticism in the international arena regarding its discriminatory trade policies, the Commission was determined to oppose such objections coming from the third countries by gathering their complaints and devising a strategy to defend the Community policies.¹⁸⁶ After Yugoslav unofficial contacts in early 1959 with the Italian, Belgium and French Embassies in Belgrade regarding the impact of the EEC on their trading relations, the representatives of the EEC member states at the COREPER meeting on 19 March 1959 decided that the Community would pursue the same contending strategy towards Yugoslavia.¹⁸⁷

¹⁸² DA MSP RS, PA, f-95, d. 15, 435995, Beleška o odnosima FNRJ-EFTA, 16 September 1960; PA, f-112, d. 25, 440100, Beleška o stanju u zapadnoeuropskoj integraciji, 26 October 1961, 4.

¹⁸³ DA MSP RS, PA, f-91, d. 9, 424161, Beleška o preliminarnim razgovorima sa EEZ i vladama članicama u cilju reguliranja problema u međusobnim odnosima koji proizlaze iz ostvarivanja zapadnoeuropske integracije, 17 September 1959.

¹⁸⁴ DA MSP RS, PA, f-91, d. 9, 424161, Beleška o preliminarnim razgovorima sa EEZ i vladama članicama u cilju reguliranja problema u međusobnim odnosima koji proizlaze iz ostvarivanja zapadnoeuropske integracije, 17 September 1959, 1.

¹⁸⁵ Ibid., 3.

¹⁸⁶ Giuliano Garavini, *After Empires. European Integration, Decolonization and the Challenge from the Global South 1957-1986* (Oxford: Oxford University Press, 2012), 64-65.

¹⁸⁷ HAEU, CM2/1959-58, 47e réunion du Comité des représentants permanents, Bruxelles, 26 February 1959, 30; CM2/1959-63, 50e réunion du Comité des représentants permanents, Bruxelles, 19 March 1959, 18-20.

Yugoslav diplomats in their first informal contacts with the officials from the European Commission's Directorate-General for External Relations (DG I) stressed the economic difficulties that Yugoslavia faced in relations with the Community. On the other side, the EEC officials opened the question of diplomatic recognition and establishing full diplomatic relations between Yugoslavia and the EEC. This issue was for the first time discussed at the meeting between Žarko Tomašević, the Secretary of the Yugoslav embassy to Belgium, and Jean Faniel, the EEC Director of Direction for Bilateral Relations, on 5 December 1959.¹⁸⁸ In the following months, EEC officials as well as diplomats of the EEC member states raised this issue on several occasions.¹⁸⁹ In January and February 1960 Italian Ambassador Cavaletti, Dutch Ambassador Voorst and Belgian Ambassador Rothschild discussed the issue of Yugoslav–EEC relations with Nenad Popović, a high-ranking Yugoslav diplomat. On these occasions, they suggested that it would be beneficial for Yugoslavia to have some loose association or contact with the Community.¹⁹⁰ A Counselor of the French Embassy in Belgrade, Arnaud, conveyed an identical message to Bogdan Crnobrnja, Assistant Secretary of State for Foreign Affairs.

Four months later the Commission made another step in getting closer to Yugoslavia. At the COREPER meeting on 2 June 1960 the Commission suggested that Yugoslavia and the EEC should unofficially consult about the issues that worried the Yugoslav authorities. The Six concluded that they should

coordinate their stance *vis-a-vis* Yugoslav demands. For political and economic reasons, their governments and the Commission do not believe that they should impede talks to which the Yugoslav Government seem to attach great importance, especially to refute certain claims that Belgrade would be tempted to make against the Community.¹⁹¹

¹⁸⁸ DA MSP RS, PA, f-92, d. 12, 431607, Telegram Ambasade FNRJ iz Brisela, 5 December 1959; PA, f-92, d. 1, 432507, Ambasada FNRJ iz Brisela: O problemu naših odnosa sa EEZ, 11 December 1959.

¹⁸⁹ E.g. DA MSP RS, PA, f-94, d. 7, 45886, Telegram Ambasade FNRJ iz Brisela, 3 March 1960.

¹⁹⁰ DA MSP RS, PA, f-92, d. 1, 432215, Zabeleška o razgovoru sa ambasadorom Italije Cavaletti na večeri kod Ambasadora Finske 14 decembra 1959. godine; PA, f-93, d. 4, 42916, Zabeleška o razgovoru druga B. Crnobrnje sa savetnikom francuske ambasade g. Arnaud-om, 28 January 1960; PA, f-95, d. 2, 44298, Zabeleška o razgovoru druga Nenada Popovića sa holandskim ambasadorom g. Voorstom, 17 February 1960; PA, f-95, d. 2, 44846, Beleška o razgovoru druga N. Popovića sa belgijskim ambasadorom g. Rotčildom, 22 februara 1960.

¹⁹¹ ECHA, BAC 97/1986/2, Comité des R. P. (111^{ème} réunion), Échange de vues sur les relations commerciales avec le Yougoslavie, 2 June 1960, 131, quoted in Benedetto Zaccaria, *The EEC's Yugoslav Policy in Cold War Europe, 1968-1980* (London: Palgrave Macmillan, 2016), 17.

At the meeting on 6 April 1960 Faniel again discussed the Yugoslav position towards official recognition of the EEC with Žarković. During the meeting Faniel underlined that the Commission “cared more about the positive attitude of Yugoslavia than of the other Eastern countries.”¹⁹² He stressed that early recognition of the EEC by Yugoslavia would be seen as a friendly gesture. In return, the EEC would treat Yugoslavia as an OEEC member country, rather than a country of the Eastern Bloc. The inclusion of Yugoslavia in the group of Eastern bloc countries by the European Commission has indeed caused considerable dissatisfaction among Yugoslav diplomats, who argued that Yugoslavia should have been included in the group of neutral countries. Additionally, Faniel warned Žarković that the Commission would eventually suspend contacts with the representatives of the countries that would not recognize the Community.¹⁹³

Yugoslav diplomats considered the EEC’s readiness to discuss Yugoslav–EEC relations was to some degree a consequence of Yugoslavia’s EFTA policy.¹⁹⁴ By then, the Yugoslav initiative regarding the EFTA had ended in a deadlock, and therefore, at the end of June 1960, the Yugoslav government decided to recognize de facto the EEC by giving instructions to the Ambassador in Brussels, Vjekoslav Prpić, to ask for a meeting with the president of the EEC Commission Walter Hallstein.¹⁹⁵ Unexpectedly, Hallstein declined to meet the Ambassador.¹⁹⁶ This situation was not only a surprise for the Foreign Ministry, but also for the EEC member states. Italian and French diplomats explained Hallstein’s decision not to meet the Yugoslav Ambassador by his personal views and the fact that he was the author of the Hallstein doctrine.¹⁹⁷ Jean Rey, Commissioner responsible for external relations, expressed his regrets about the incident at the meeting with Ambassador Prpić held in November 1960, saying that nobody in the Commission knew about it.¹⁹⁸

¹⁹² DA MSP RS, PA, f-95, d. 5, 410617, Zabeleška o razgovoru Žarka Tomaševića sa Fanielom, načelnikom direkcije za bilateralne odnose u Generalnoj direkciji sa spoljne odnose EEK, vođen 6 aprila 1960.

¹⁹³ Ibid.

¹⁹⁴ DA MSP RS, PA, f-95, d. 14, 435761, DSIP: Reguliranje naših odnosa sa Evropskom ekonomskom zajednicom (EEZ), 14 June 1960, 2.

¹⁹⁵ DA MSP RS, PA, f-95, d. 10, 417197, Telegram DSIP-a Ambasadi FNRJ u Briselu, 25 June 1960.

¹⁹⁶ DA MSP RS, PA, f-95, d. 10, 423416, Telegram DSIP-a Ambasadi FNRJ u Parizu, 6 September 1960.

¹⁹⁷ DA MSP RS, PA, f-95, d. 10, 424013, Telegram DSIP-a Ambasadi FNRJ u Briselu, 16 September 1960; PA, f-95, d. 10, 424013, Telegram Ambasade FNRJ iz Rima, 13 September 1960; PA, f-95, d. 10, 426331, Telegram Ambasade FNRJ iz Haga, 6 October 1960; PA, f-95, d. 10, 425035, Telegram Ambasade iz Pariza DSIP-u, 22 September 1960.

¹⁹⁸ Rey explained that he heard about the whole incident from US Secretary of Treasury Douglass Dillon, who wanted to know why the Commission has refused the Yugoslav initiative. DA MSP RS, PA, f-95, d. 11, 429156, Telegram Ambasade FNRJ iz Brisela DSIP-u, 3 November 1960.

Regardless of this episode, Rey and Prpić agreed that the Yugoslav Embassy and the Commission officially begin talks concerning the Yugoslav–EEC relations. The Commission’s proposal for further consultations was, however, unacceptable to the Yugoslav government. Namely, the Commission proposed that Yugoslavia should first make evident the detrimental consequences that it was suffering in trade due to Community policies. Such an approach was in line with the EEC policy towards third countries. However, the Yugoslav side decisively rejected the idea of making evident the harmful effects of the EEC discrimination against Yugoslavia, largely as it was still impossible to establish the exact consequences of these measures. Also, the Commission proposal was contradictory to Yugoslavia’s primary goal of entering into discussions with the EEC. The Foreign Ministry expressly wanted to reach an agreement with the EEC that would offer Yugoslavia a liberalization of trade with the Community and to establish a principle that further strengthening of the EEC would not have adverse effects on Yugoslav relations with the Community. In return, Yugoslavia would officially recognize the EEC. Under such conditions, Yugoslavia was prepared to open exploratory talks with the EEC. Since the Commission could not agree with these conditions, Belgrade decided to retain the status quo in relations, which in effect meant that they remained limited to occasional and unofficial diplomatic contacts with the Commission.¹⁹⁹

¹⁹⁹ DA MSP RS, PA, f-95, d. 12, 430438, Telegram Ambassade FNRJ iz Brisela DSIP-u, 12 November 1960; PA f-95, d. 12, 431144, Beleška o odnosima sa Zajedničkim tržištem, 23 November 1960, 1-3.

1.3. Yugoslavia in the Integrating World Economy: Between Ideology and Economic Pragmatism

Yugoslav policies towards Western European integration until the early 1960s were based on the promotion of the broadest and most universal cooperation possible. Yugoslavia, in particular, wanted to avoid any loss of sovereignty, and therefore insisted on special arrangements. Such Yugoslav policies corresponded with the country's international standing and its interests in trade with Western Europe. For Yugoslavia, the most favourable solution would have been a liberalized, non-discriminatory Western European trading system without quantitative restrictions on trade, something they had hoped to achieve within the OEEC. Yugoslav cooperation with the OEEC, however, became less important as a result of the emergence of the EEC and the EFTA. Antagonism towards the regionalization of Western European trade in this period was best displayed in a document from 1960, entitled *Informativni materijali o međunarodnim kretanjima 1953–1960* (Information materials about the international development 1953–1960), in which the Foreign Ministry singled out the creation of regional trading blocs among the ten most negative factors in international relations in this period. According to the report, the regionalization of European trade, especially in Western Europe, would not only further subdivide world markets, thus having a negative impact on international economic development and relations, but it would also discriminate against imports coming from third countries, with adverse consequences for the Yugoslav economy as well.²⁰⁰

The adverse reaction to the EEC was not only based on economic arguments, but also reflected broader ideological considerations. In the late 1950s and early 1960s, Yugoslav political leaders and theorists had articulated concrete positions and ideological views on the Western European economic integration process. In this period, the structural changes in the world economy and international trade caught the attention of policy-makers as well. The increased role of commerce in the postwar international economic order, greater openness of the global economy due to reductions in trade barriers, transport and communication costs, and changes in patterns of trade, payments and international financing had significant repercussions for the formulation of Yugoslav economic and foreign trade policy.²⁰¹ These

²⁰⁰ AJ KPR, 837, I-5-a/3, Informativni materijali o međunarodnom razvitku 1953-1960, 4.

²⁰¹ Apart from Janez Stanovnik, Yugoslav economists Marijan Hubeni and Ljubiša Adamović analysed the changes in the postwar international economic system. See more in Janez Stanovnik, *Strukturalne promene u svetskoj privredi* (Beograd: Institut za međunarodnu politiku i privredu, 1960); Marijan Hubeni and Ljubiša

developments together with the Cold War division of the world and the Yugoslav policy of non-alignment played a crucial role in conceiving an ideology platform on international economic relations.

1.3.1. Western European Integration and Yugoslav Internationalism

The Yugoslav ideological position towards regional and global economic integration was made public in a new liberal Party Programme ratified at the 7th LCY Congress in 1958.²⁰² The Programme affirmed the Yugoslav commitment to follow its “national road to socialism.” As Rubinstein commented, “Yugoslavia formally reaffirmed its decision not to rejoin the Soviet camp and took a giant step towards making nonalignment the mainstay of its foreign policy.”²⁰³ The Programme also presented the Yugoslav version of communism by addressing a broad number of ideological domestic and international issues, ranging from the dangers of bureaucratic centralization, further development of self-management, the withering away of the State, the possibility of separate roads to socialism, the assertion that the Soviet Union was equally responsible for the Cold War confrontation as the West etc.²⁰⁴ In regard to regional economic integration and international intergovernmental organizations, the Programme characterized them as a new instrument of developed countries for achieving economic and political hegemony over the underdeveloped and developing nations. Still, the Programme underlined that Yugoslavia would establish cooperation with “various European economic organizations on the basis of equal cooperation and mutual benefit.”²⁰⁵ Tito also referred to the economic integration of Western Europe in his speech at the Congress, by saying:

We perceived European economic integration, and we still do, merely as a partial and inadequate solution that disguises a lot of negative elements, especially regarding domination by economically more powerful (countries). On the other hand, this

Adamović, *Promene u svetskoj proizvodnji i međunarodnoj trgovini* (Beograd: Institut za međunarodnu politiku i privredu, 1960).

²⁰² This was the first programme adopted after the Tito-Stalin split. The first Yugoslav Communist Party programme was adopted in 1920, and the second one in 1948. Edvard Kardelj, “Povodom Nacrta programa SKJ,” *Sedmi kongres SKJ* (Beograd: Kultura, 1958), 150-151.

²⁰³ Rubinstein, *Yugoslavia and the Nonaligned World*, 76.

²⁰⁴ Rajak, *Yugoslavia and the Soviet Union in the Early Cold War*, 203-204; Stefano Bianchini, “USSR and Soviet Bloc between Ideology and Realpolitik (1947-58),” in *Europe 1945-1990s: The End of an Era?*, ed. Antonio Varsori (Basingstoke: Macmillan Press, 1995), 133-135.

²⁰⁵ „Program SKJ”, *Sedmi kongres SKJ* (Beograd: Kultura, 1958), 207, 267.

integration has a bloc character and obstructs the proper development of economic integration in a broader sense.²⁰⁶

In the following years, theorists elaborated the Yugoslav view on the Western European integration process in much more detail. First Edvard Kardelj, Vice-President of the Yugoslav government and chief ideologist of the LCY, in an interview to centre-left journal *France-Observateur* in April 1959, explained his view of the integration process. In the interview he emphasized:

The level of economic development and technological advances requires the broader international division of labor (...) which direct nations to a greater economic cooperation (...) and in a sense to their economic unification.²⁰⁷

According to Kardelj, European economic integration should be built upon several key principles. First, economic integration should aspire to “rational division of labor (amongst economies), and not to economic autarchy.” Second, economic integration should be based on the economic complementarity, and not on political alliances. Third, economic integration should foster the principle of coexistence by facilitating the development of different economic systems. Fourth, economic integration should be based on the principle of sovereign equality of states and comprehensive development of national economies. Fifth, economic integration is a process whose goals can be accomplished only if national governments retain complete control over this process. Finally, regional and sub-regional economic organizations should only be an intermediate step towards a global economic integration. Kardelj further underlined:

World integration can be achieved only by elimination, first, of the (development) gap between rich and poor countries, and second, of the division among nations that are further deepened by the exclusive integration systems based on political conceptions.²⁰⁸

Kardelj emphasized that Yugoslavia would be ready to participate in such a European community, which could overcome the Cold War division of Europe. In that respect, he

²⁰⁶ Tito, “Zadaci Saveza komunista u vezi sa međunarodnom situacijom i unutrašnjim razvojem socijalističke Jugoslavije (Referat na VII kongresu SKJ), Ljubljana, 22/04/1958,” in Tito, *Govori i članci* (Zagreb: Naprijed, 1960), 13:160.

²⁰⁷ DA MSP RS, PA, f-93, d. 6, 35290, Odgovori potpredsednika Kardelja na pitanja „Frans-Opserveter-a“ u vezi sa zapadnoevropskom ekonomskom integracijom, 9 April 1959, 1.

²⁰⁸ *Ibid*, 4.

pointed to the role of the working class in Western Europe. According to Kardelj, and in line with the Yugoslav theory of self-management, only the Western European Labour Movement could change the course of the Western European integration into a positive direction, based on national control of its resources and economy, and intergovernmental economic cooperation. In his view, one of the greatest responsibilities of the working class in both Eastern and Western Europe was overcoming the economic bloc division of Europe. Unsurprisingly, he criticized the EEC as a discriminatory, closed economic bloc that favoured developed countries, without paying attention to the particular problems of developing and undeveloped countries. According to him, an integrated Europe isolated from global markets could not achieve prosperity because European trade could expand only by giving assistance to the world's underdeveloped nations. Furthermore, he expressed his skepticism of the concept of supranational governance, highlighting the resistance of the nation-state to such a model.²⁰⁹

Kardelj's arguments, which were largely driven by ideological considerations, were endorsed by younger intellectuals working in the Belgrade Institute of International Politics and Economy.²¹⁰ The Institute, headed by Janez Stanovnik, a Slovenian economist and politician,²¹¹ had an important role in formulating the new Yugoslav foreign economic policy that would resolve the burning problems of Yugoslav foreign trade, and strengthen the substance of the emerging policy of non-alignment.²¹² By 1960, Yugoslav scholars conceived a new theory of foreign trade: the policy of economic coexistence.²¹³ In broad ideological terms, the concept anticipated the accelerated economic development of underdeveloped countries that would lead to the creation of a new, socialist international economic order.²¹⁴ In practical terms, this concept implied various aspects of economic cooperation among the

²⁰⁹ Ibid, 1-6.

²¹⁰ The Institute was established in 1947 with the objective to assist the Yugoslav Ministry of Foreign Affairs in creating and formulating the foreign policy agenda.

²¹¹ Stanovnik (born 1922) played a significant role in preparations for the United Nations Conference on Trade and Development in the 1960s. Later he was executive secretary of the UN Economic Commission for Europe (1968-82). See Garavini, *After Empires*, 38.

²¹² The first discussion about economic development and the problem of international economic order appeared immediately after Yugoslav-Soviet split in the article written by Milentije Popović, "O ekonomskim odnosima između socijalističkih država," *Komunist*, no. 4 (1949). Throughout the 1950s several authors contributed to this discussion, e.g. Vojina Gužina, Joža Vilfan, and Milutin Ćirović. See more about the concepts of Yugoslav foreign trade in Ljubiša Adamović, *Teorija međunarodne trgovine* (Beograd: Institut za ekonomska istraživanja, 1974), 239-267.

²¹³ In April 1960 the Institute organized an economic conference on "Structural Changes in the World Economy" at which the issues related to the Yugoslav foreign economic policy were discussed. The conclusions of the conference were published in the Institute journal, *Međunarodni problemi* 13, no. 3 (1960), and a book written by Janez Stanovnik, *Strukturalne promene u svetskoj privredi*.

²¹⁴ Stanovnik, *Strukturalne promene u svetskoj privredi*, 158-162.

developing countries and diversification of the Yugoslav foreign trade by focusing on trade with these countries.

In December 1961, the Institute organized a conference dealing with the issue of European integration.²¹⁵ Discussions at the conference revealed sharp divisions within the policy establishment over this topic.²¹⁶ Stanovnik, who was a close associate of Kardelj, developed a comprehensive and highly ideological concept of Yugoslav policy towards the EEC. On the other side, some economists ignored the ideological perceptions of European integration and favoured a pragmatic approach to the issue of Yugoslav–EEC relations.

Stanovnik based his view of European integration on the Yugoslav vision of the international economic order. The idea that capitalism was in its final stage and that the world was on the path to socialism was central to the Yugoslav Communist party ideology.²¹⁷ The structural changes in the global economy in the late 1950s and early 1960s, and especially the emergence of the Third world countries, in the Yugoslav view, reflected the crisis of the world capitalist system and transition towards socialism. However, unlike Soviet theorists, the Yugoslav ideologists rejected Stalin's idea of "two separate, capitalist and socialist world markets."²¹⁸ One of the main disagreements between Yugoslavia and the Soviet Union was Yugoslav insistence that socialism could be developed in Western countries without revolution. Yugoslav communists envisaged the transformation of the global economic system into socialism not by geographical expansion of socialism, but through a transformation of the capitalist world economy.²¹⁹ The crucial aspect of this struggle was the functioning of "the law of value." Whereas the Yugoslav theorists agreed with the Soviets that raising productivity was the key for the victory of socialism, they argued that the law of value could not function within the regionally-defined socialist community since it was

²¹⁵ Already in 1959 Yugoslav Foreign Ministry instructed Institute to focus its attention on the process of European integration. DA MSP RS, PA, f-92, d. 9, 426753, II odeljenje: Institutu za međunarodnu privredu i politiku, 16 October 1959.

²¹⁶ Discussions of the conference were published in the Institute journal, *Međunarodni problemi* 13, no. 4 (1961). This part is largely written on discussions from this conference. It is also based on the conclusions of the earlier mentioned conference on "Structural Changes in the World Economy" that was held at the Institute in April 1960.

²¹⁷ The Program of LCY, adopted at the Seventh Congress in 1958, declared that "The capitalist mode of production, the capitalist social system is in its final stage. Humanity, with all its economic and other social relations enters - in very different ways - in the period of transformation to socialism. Socialism is increasingly becoming a matter of practice for all nations; it is increasingly becoming a unique process and the world system.", "Program SKJ", *Sedmi kongres SKJ*, 218.

²¹⁸ Ivan T. Berend, *An economic history of twentieth-century Europe: economic regimes from laissez-faire to globalization* (Cambridge: Cambridge University Press, 2006), 166.

²¹⁹ Guy R. MacLean, "Yugoslavia: The "Trojan Horse" of Communism," *International Journal* 13, no. 4 (1958): 287.

defined in global proportions.²²⁰ As Stanovnik highlighted in 1960, “The struggle between capitalism and socialism as two distinct socio-economic systems does not take the form of conflict between two regional groups, but the conflict between two tendencies, two principles.”²²¹

The development of the underdeveloped Third World nations was, in their view, crucial for the transformation towards a single-world socialist economic system. Industrialization and diversification of underdeveloped national economies would facilitate the structural change of the world economy and eliminate unequal trading relations between the developed and underdeveloped countries. Technical and scientific progress was essential in this process, as it should enable the increase in productivity of their economies that would, according to Yugoslav theory, led to the elimination of all forms of inequality and of the exploitation of underdeveloped countries by developed capitalist countries. The role of the policy of economic coexistence was to bolster economic development of the underdeveloped nations and thereby to contribute to the formation of new “socialist” international economic relations.²²²

In such a framework, Stanovnik and his associates examined the process of European integration and the creation of the EEC.²²³ Next to the existence of a “socialist world market” and the position of the underdeveloped countries in the international economy, they saw the problem of regional integration as one of the three main challenges for the global economy.²²⁴ Economic integration was an “objective process” that emanated from the structural changes in the global economy.²²⁵ It was a consequence of the technological progress that required the economy of scale. For Yugoslav theorists, such a development was positive since it would lead to a formation of a single-world socialist economic system.

They, however, dismissed the possibility that the EEC and Western European economic integration were in fact a manifestation of the process of economic integration. According to their view, authentic economic integration should be a process towards free

²²⁰ See more about the foreign trade theory in the Soviet bloc in Frederic L. Pryor, “Foreign Trade Theory in the Communist Bloc,” *Soviet Studies* 14, no. 1 (1962): 41-61.

²²¹ Stanovnik, *Strukturalne promene u svetskoj privredi*, 161.

²²² *Ibid.*, 26-28, 145-150.

²²³ Stanovnik's views in the debate were largely shared by Vladimir Dragomanović, Hasan Hadžiomerović, Radivoj Uvalić, Njegosava Petrović and others.

²²⁴ Stanovnik, *Strukturalne promene u svetskoj privredi*, 123, 158-159.

²²⁵ Vladimir Dragomanović, “Teze o problemima ekonomske integracije,” *Međunarodni problemi* 13, no. 4 (1961): 11-12.

movement of economic factors in the world economy with the goal of an “optimized international division of labour.” They argued that Western European economic integration, and the EEC in particular, was a process of coordination of Western European national economic policies in an effort to internationalize “state capitalism.” Instead of advancing the integration of the world economy, this process was in fact further disintegrating the world economy in the narrow interests of the Western European countries.

The Yugoslav theorists highlighted four negative aspects of the EEC. First and foremost, it was a Cold War project directed against the Soviet bloc. At the moment when the economic competition between the two systems had emerged as the main field of the blocs’ confrontation, “the policy of integration represented only an instrument in this struggle.” Second, they depicted the EEC as yet another way to pursue neo-colonial policies by Western European powers; namely, as a new “method and framework of international capitalist exploitation.” The “colonial” policy was now pursued by “the monopolist tactic of extortion of formally and politically independent raw material producing developing countries... The mechanism of exploitation has become much more sophisticated.” Third, in the same way, they looked at the formation of the customs union that was, according to Stanovnik, nothing more than “a premeditated instrument of extortion and discrimination” designed against third countries. Finally, they criticized the CAP economically, as a policy that would distort the international division of labour and the rational utilization of resources, and politically, as a mechanism that resolves internal social and political problems of the EEC member states at the expense of third countries.²²⁶

Thus, the negative view of Western European integration and, in particular, the EEC, was based not only on the detrimental effects that this process had on the Yugoslav economy but also on wider ideological and political considerations. Most importantly, according to this view, the Western European integration process acted as a disintegrative factor in the world economy with the main aim to consolidate the position of the Western European countries. By integrating the economies of its member states and pursuing common policies, the EEC had provoked fierce antagonism between European neutral countries and Britain on the one hand, and the EEC member states on the other side; caused further economic and political disintegration of the African continent; and adversely affected the world’s agricultural

²²⁶ Janez Stanovnik, “Društvenoekonomski značaj savremenog procesa regionalne integracije,” *Međunarodni problemi* 13, no. 4 (1961): 136-141. See also Dragomanović, “Teze o problemima ekonomske integracije,” 11-13.

exporters. At the heart of these policies was an underlying political interest to petrify the inequality between developed and underdeveloped regions in the world. Finally, Yugoslav theorists also highlighted a class aspect of the European integration process. In their view, this project was designed in such a way not only to secure the position of capital in Western European societies but also to entice other segments of the bourgeois and peasantry to support the capitalist social order. In the words of Stanovnik:

The process of regional economic integration in this regard is not a manifestation of progressive or socialist elements or state capitalist factors; on the contrary – it is a tendency of reactionary social and political leading circles to join their class forces and strengthen their position against the growing power of the working class in their societies, as well as to preserve colonial privileges in the world economy... economic integration today is – due to its specific instruments, as well as for its immediate socio-class assignments – a reactionary and anti-socialist formation.²²⁷

In February 1962 the Belgrade government drafted a document that offered a vision of a different and much broader conception of European integration.²²⁸ The document, a Memorandum for the so-called “Group of Four on Economic Organization,” was the Yugoslav outline on how to transform the OEEC into OECD.²²⁹ The Yugoslav proposal was based on the view that various forms of integration should only constitute stages leading towards a broader and freer world market. Therefore, new actions should not result in the creation or the maintenance of various forms of economic isolation and discrimination. The Memorandum also highlighted that promotion of a rapid and all-round development of underdeveloped countries should be the focus of the new organization. For this reason, the reorganized OEEC should provide for an increase of assistance to those states. In the

²²⁷ Stanovnik, “Društvenoekonomski značaj savremenog procesa regionalne integracije,” 144.

²²⁸ Janez Stanovnik was a member of the working group that drafted the Memorandum. Interview with Janez Stanovnik, Ljubljana, 21 July 2015.

²²⁹ The creation of the EEC and EFTA created a rift among the OEEC countries. The US feared the division of Western Europe between the Six and the Seven and wished to sustain some kind of economic unity as well as to preserve the OEEC as an active forum for all Western countries. The Eisenhower Administration, therefore, decided to advocate a reorganization of the OEEC along with the accession of Canada and the US. The “Group of Four on Economic Organization” (G4) was responsible for the transition from the OEEC to the OECD. The G4 consisted of the “Four Wise Men”: Gore-Booth, Randolph Burgess – the US Delegate to NATO; Bernard Clappier – a high French official from the Quai d’Orsay – and Xenophon Zolotas, the governor of the Bank of Greece. Randolph Burgess invited the Yugoslav government to take part in the consultation process. Richard T. Griffiths, ed., *Explorations in OEEC history* (Paris: Organisation for Economic Co-operation and Development, 1997), 242-245. DA MSP RS, PA, f- 93, d. 3, 42810, Telegram Stalne delegacije FNRJ pri OEEC DSIP-u, 2 February 1960.

Yugoslav view, such assistance should not have been limited to the field of financing, but also should have created favourable conditions for the export of primary commodities and other products of underdeveloped and developing countries. To that end, activities of the new organization should facilitate more liberal trade and further reduction of restrictions in international trade and payments. In effect, such development should have led towards removal of economic trade barriers imposed by the EEC and the EFTA and their closer cooperation with non-member countries. The Yugoslav government believed that by mitigating restrictions which impeded the expansion of trade and rendered difficult the balancing of payments deficits in countries faced with such problems, the development of the underdeveloped countries would advance more rapidly and in a more stable manner. Such policies would also contribute to increased trade and employment as well as a more lasting expansion of the entire world economy.

Consequently, the new organization should have been organized primarily on the principle of broad and flexible association that would offer possibilities for cooperation to as many interested countries as possible, both inside and outside of Europe, depending on the degree of their economic development, objective conditions and needs. Since developed and underdeveloped countries could not have the same market mechanism in trading relations, due to the differences in level of development, each country could have adopted, according to the Yugoslav concept, a specific mechanism and policy of economic development that would promote the most rapid economic growth of the respective country and the highest possible level of trade. In the Yugoslav view, such a development should gradually lead to a freer and more harmonious global economic relations since “it will be possible to realize a genuinely free world market when the latter becomes the internal need of each individual economy.”²³⁰

The conception of East–West economic integration as outlined by the Yugoslavs determined the structure of the new organization. For Yugoslavia, the redesigned OEEC should become an economic structure without elements of supranational character. Through its flexible organizational forms, the new organization would tend towards the expansion of cooperation, gradual mitigation and eventual elimination of all forms of unequal treatment and conditions in international economic relations. The types of membership would be broad and flexible (member countries, associated members, specific arrangements) in order to provide an opportunity for cooperation to those countries that could not become full

²³⁰ DA MSP RS , PA, f-93, d. 6, 45323, Memorandum za „grupu četvorice“, 27 February 1960, 6.

members. Besides promoting comprehensive solutions to the problems of underdeveloped countries and their integration into world trade through credit and financial policies, the creation of favourable export conditions, promotion of liberal trade policies by eliminating all discriminatory practices, and particularly agrarian protectionism, the organization should have continued and expand the existing OEEC activities such as cooperation in the fields of productivity, agriculture, etc. Finally, the reorganized OEEC should in the Yugoslav opinion organize its activities in such a way that would render it easier to realise closer cooperation and an efficient coordination of operations with existing international organizations and bodies, particularly certain UN organs (ECE, ECOSOC).²³¹

Such a conception of economic integration, although contradictory on some points, corresponded with the unique Yugoslav position in Europe and on many aspects of Yugoslavia's foreign policy and ideology. Obviously, for Yugoslav policy-makers and scholars, integration was nothing more than enhanced cooperation. Such a viewpoint, however, should not be surprising. For the Yugoslav leadership, notions of equality of states in international relations and their political independence were paramount. In the end, this was the essence of Tito's confrontation with Stalin. Therefore, the Yugoslav leadership was not prepared to compromise on these issues. Such a point of view, as we will see in the following chapters, will determine the Yugoslav concept of cooperation with the EEC.

1.3.2. The Functional Approach to Cooperation with the EEC

The ideological point of view on the EEC had significant implications on the strategic focus of Yugoslav foreign economic policy. Stanovnik argued that political cooperation with an organization that was an ideological and economic adversary was unsustainable. Instead, Yugoslavia should establish cooperation with other countries that were negatively impacted by EEC policies, and should particularly aim to cooperate with the developing countries. The main objective of this cooperation would be the integration of the world economy and opposition against the discriminatory policies of the EEC. Stanovnik dismissed the idea of an eventual creation of a Third World trading bloc. At the same time, he was aware of the dependency of the Yugoslav economy on the Western European countries. Regardless, he

²³¹ DA MSP RS, PA, f-93, d. 6, 45323, Memorandum za „grupu četvorice“, 27 February 1960; PA, f-93, d. 7, 45296, Nova ekonomska organizacija OEEC, 23 February 1960; PA, f-93, d. 4, 43276, Beleška o integracionim kretanjima u Zapadnoj Europi i neki predlozi za našu aktivnost, 5 February 1960, 12-13.

rejected any “semi-integration” into the Western European economic structures and insisted that the only solution to the Yugoslav position was a change in investment and production policies that would correspond with the Yugoslav foreign economic policy orientation towards the Global South. In his view, there was no historical economic gravity of the Yugoslav economy towards Western Europe, nor was Western Europe predetermined to be the world’s leading industrial producer. Stanovnik also maintained that Yugoslavia had no economic interest in cooperation with the European neutral countries due to the economic and political differences. Instead, he asserted:

Socialist Yugoslavia must be aware of the fact that the overall strategy of ‘integration’ is not primarily a question of certain gains or losses in foreign trade, but the tendencies of socio-economic development in the modern world. By connecting with the developing countries in their efforts to create a unified world economy, Yugoslavia is combining its short-term economic interests as a developing country together with a long-term interest to achieve economic equality and world socialist economy.²³²

Such an ideological and foreign trade platform was rebuffed by several economists, most notably by Croatian economists Vladimir Pertot and Rudolf Bičanić.²³³ They both underlined that this ideological and political approach was of little use when assessing the impact of the integration process on the Yugoslav economy. In Bičanić’s view, the integration process was a consequence of a long-term restructuring of the world economy, and Yugoslavia should determine its long-term interests in a levelheaded way. There were, however, considerable differences between economists regarding the optimal Yugoslav policy. Some did not consider Yugoslavia to be primarily an export-oriented country, and therefore, argued it should not be concerned with the regional economic integration.²³⁴ Others, most prominently Branko Horvat, considered that the share of Yugoslav exports in the overall imports of its main trading partners was negligible, allowing them to make concessions to Yugoslavia.²³⁵ The so-called capillary foreign trade policy, as well as the first position, implied that there was no impending threat to Yugoslavia coming from the EEC. The third position was that Yugoslavia should pursue a balanced foreign trade policy towards all economic blocs and

²³² Stanovnik, “Društvenoekonomski značaj savremenog procesa regionalne integracije,” 146.

²³³ Vladimir Pertot, “Uloga integracije u evoluciji svetske trgovine,” *Međunarodni problemi* 13, no. 4 (1961): 21-22, 32; Rudolf Bičanić, “Izbor integracija,” *Međunarodni problemi* 13, no. 4 (1961): 127-130.

²³⁴ Đorđe Pribičević, “Ekonomska integracija kao izraz nužnosti u savremenim privrednim kretanjima,” *Međunarodni problemi* 13, no. 4 (1961): 89.

²³⁵ Branko Horvat, “Paralelizam u integracionom procesu,” *Međunarodni problemi* 13, no. 4 (1961): 40.

areas.²³⁶ In addition, a considerable number of economists underlined the importance of trade with the Third World countries.²³⁷

Bičanić made the strongest argument in favour of the Western European orientation of the Yugoslav foreign economic policy and the need to urgently address the question of Yugoslav–EEC relations.²³⁸ He straightforwardly concluded that the Western European integration process was not a result of “dying capitalism,” but on the contrary, that it was a result of a robust economic growth. Therefore, he underlined that the question of Yugoslav–EEC relations was an urgent matter that could not be put aside. The wait-and-see policy was in his view a risky strategy, so he stressed that “I would not like to be responsible for the Yugoslav foreign economic policy while we wait for the working class in Western Europe to unite and establish its own unitary policy.”²³⁹ Bičanić also criticized Yugoslav orientation towards closer cooperation with the developing countries. Any integration of the Yugoslav economy with the Global South was in his view unsustainable. On the one side, Yugoslavia was a much more developed country than the Third World countries were, and, therefore shared no common economic interests. At the same time, Yugoslavia was too poor and undeveloped to become a centre of such an integration. Instead, Bičanić emphasized that Yugoslavia had a long-standing interest in the integration of Western Europe:

Our long-term economic interest is, in my opinion, tied to the integration that has started to be implemented in Western Europe. I am convinced of this because of the daily plebiscite that is practiced by the import of machines and raw materials, the search for export markets, the movement of international traffic, tourism perspectives and the position of our balance of payments. Another illustrative piece of evidence of this is our perspective on the standard of living which looks for its benchmark in the West as well as the direction of our workers' economic emigration, and search for technical assistance.²⁴⁰

²³⁶ Radivoj Uvalić, “Pozitivne i negativne strane zapadnoeuropske integracije,” *Međunarodni problemi* 13, no. 4 (1961): 97.

²³⁷ Bora Jeftić, “Ekonomska priroda integracije i njihov odraz na međunarodne ekonomske odnose,” *Međunarodni problemi* 13, no. 4 (1961): 56-57.

²³⁸ Other economists also highlighted urgency to establish cooperation with the EEC, e.g. Mirko Mermolja, “Neki finansijski aspekti integracionih procesa,” *Međunarodni problemi* 13, no. 4 (1961): 109.

²³⁹ Bičanić, “Izbor integracija,” 129.

²⁴⁰ *Ibid*, 129.

For this reason, Bičanić argued that Yugoslavia should find some flexible forms of cooperation with the EEC. In order to achieve such an accommodation, he recommended the strengthening of relations with the EEC member states. Bičanić was not alone in his conceptualization of the Yugoslav policy towards the EEC. There was a growing conviction in the Yugoslav foreign trade apparatus that Yugoslavia would have to find a way to address the emergence of the Common Market.²⁴¹ However, the failure to open more substantive talks with the EEC in 1960 and the Party's adverse ideological views of the Western European integration process lead to a stalemate in Yugoslav policy towards the EEC. In the words of Janez Stanovnik, for Yugoslavia "the EEC was a right-wing, Western organization, and a NATO bloc organization ... that totally and uncritically supported US policy in the Cold War confrontation."²⁴² Moreover, at that point Yugoslav policy-makers considered that Yugoslavia should address the problems raised by the EEC in cooperation with the developing, non-aligned countries. This policy was reinforced by a widespread belief of the political leadership that fast-growing developing countries would lessen Yugoslav dependence on the Western Europe.

These opposing points of view over the Yugoslav policy towards the EEC reflected a wider fissure within the Yugoslav establishment on the question of foreign economic policy. On the one side, the desire of the Party leadership to pursue economic cooperation with the Third World countries which corresponded to their ideological views and political interests; on the other the belief in the foreign trade and expert circles that Yugoslav economic interests lie in closer ties with Europe. In the end, straightforward economic pressures put Yugoslavia's cooperation with the EEC on the table. The 1961/62 economic crisis was a turning point. The crisis revealed the structural imbalances of the Yugoslav economy and foreign trade. It also opened debate within the Yugoslav establishment about overall economic policy, including foreign economic policy. The debate exposed distinct differences in the LCY regarding the further development of the Yugoslav political and economic system. This will have a profound and far-reaching impact on the conduct of Yugoslavia's EEC policy.

²⁴¹ Slobodan Branković, "Diskriminacioni karakter zatvorenih integracija," *Međunarodni problemi* 13, no. 4 (1961): 50.

²⁴² Interview with Janez Stanovnik, Ljubljana, 21 July 2015.

Chapter II

Yugoslavia at the Crossroads (1962-1964)

2.1. The Crisis of 1961/62

Throughout the 1950s the Yugoslav economy was remarkably successful. The recovery from the economic crisis which struck the country after the break with the Eastern bloc began in late 1952, when Yugoslavia turned to the West and introduced the system of workers' self-management. In the following years Yugoslavia achieved extraordinary economic growth. Until 1956, Yugoslav industry - especially production in the capital-goods sector – grew by 62 per cent. The number of employed people increased by 550 000, from 1.85 million in 1953 to 2.4 million in 1957. The next period, from 1957 to 1960, was even more impressive. During the second Five Year Plan, the national employment grew at an annual rate of 7.6 per cent; the real average incomes increased by 9.1 per cent; the industrial output rose by 14.1 per cent, and the agricultural production by 10.8 per cent on average.¹ The plan was in fact so successful that it was largely accomplished in four years. At the end of this period, in 1959/60, the government even managed to curtail food import dependence on the US by achieving self-sufficiency in wheat. Given that Yugoslavia had been importing on average USD85 million worth of wheat since 1952, eliminating these imports was important as the government could now ask for long-term investment loans instead.²

¹ Dušan Bilandžić, *Hrvatska moderna povijest* (Zagreb: Golden marketing, 1999), 386-387; Jakov Sirotković, *Ekonomaska politika Jugoslavije od 1945. do 1988.* (Zagreb: JAZU Zavod za ekonomska istraživanja, 1989), 13-14.

² Dragan Bogetić, *Nova strategija spoljne politike Jugoslavije 1956-1961* (Beograd: Institut za savremenu istoriju, 2006), 289-290.

Table 4: Growth rates in the output of gross domestic product (GDP), industry and agriculture (1952–1962)

	GDP	Industry	Agriculture
Japan	8.25%	15.04%	3.49%
Yugoslavia	7.60%	12.08%	3.69%
Soviet Union	7.29%	10.85%	5.01%
Romania	7.18%	11.87%	3.28%
Bulgaria	7.12%	13.51%	3.24%
Israel	6.63%	11.18%	8.95%
Greece	6.23%	7.75%	3.03%
Italy	5.81%	9.28%	1.69%
West Germany	5.76%	8.01%	1.58%
Hungary	5.45%	7.23%	3.08%
Austria	5.39%	6.68%	2.52%
Poland	5.33%	10.68%	3.39%
Czechoslovakia	5.26%	9.15%	1.57%

Source: Krešo Džeba and Milan Beslać, *Privredna reforma. Što i zašto se mijenja* (Zagreb: Stvarnost, 1965), 9-10.

Overall, Yugoslavia was in this period one of the world's fastest growing economies. The Yugoslav socialist development model was outperforming its alternatives, since the rate of growth was almost four times that of the West European average and twice the developing country average. Moreover, it was also higher than that of other socialist countries. Within a decade, Yugoslavia achieved transformation from an overwhelmingly agrarian into a diversified, predominantly industrial, economy.³ Besides meeting targets regarding economic development, the Five-Year Plan realized additional two main objectives of Yugoslav economic policy – raising the standard of living and stabilization of the economic system. Policy-makers were, therefore, feeling confident about the economic prospects of the

³ The industry sector's share of the economy rose from 24.9% in 1947 to 41.2% in 1961. Simultaneously, farming population decreased from 70.4% in 1948 to 49.4% in 1961. Bilandžić. *Hrvatska moderna povijest*, 466.

country.⁴ In November 1959, in the report about the economic situation to the Second Plenary Session of the CC LCY, Todorović underlined that the “foundation of all our expeditious successes in this period lies in our economic policy and system, that is to say in the utmost compatibility of these two factors.”⁵

While Todorović gave priority to the Yugoslav political and economic model, there were several other reasons which were crucial for the outstanding growth of the Yugoslav economy in this period. Primarily, economic achievements were based on the extensive model of economic growth. The abundant supply of labour in agriculture and an extraordinarily high rate of investments made it possible for Yugoslavia to rapidly develop labour-intensive manufacturing industries. Equally important, the authorities did not face balance of payments bottlenecks because of the massive Western, mostly the US, financial assistance which therefore played a key role in supporting the Yugoslav economic development. Simultaneously, the introduction of self-management and decentralization of the economic system in the early 1950s created an economic incentive for workers and enterprises to increase production, while at the end of the decade the delayed effect of massive investments was largely responsible for the “great leap forward.” Finally, the expansion of foreign trade significantly contributed to rapid economic growth as well. Besides the opening of the Eastern bloc markets and the growth in trade with developing Asian and African countries, unprecedented economic development in Western Europe created substantial export opportunities for the Yugoslav economy. At the same time, protectionist measures shielded domestic producers from foreign competition.⁶

⁴ AJ, 507, ACK SKJ II/20, Stenografske beleške sa Druge plenarne sednice CK SKJ održane 18. i 19. Novembra 1959. godine u Beogradu, 47-64.

⁵ Ibid, 59.

⁶ David Dyker, *A Yugoslavia: Socialism, Development and Debt* (London and New York: Routledge, 1990), 42-45; Fred Singleton and Bernard Carter, *The Economy of Yugoslavia* (New York: St. Martin's Press, 1982), 134-135; Dušan Bilandžić, *Historija Socijalističke Federativne Republike Jugoslavije*, 232, 255.

Table 5: Growth Rate of Yugoslavia's Foreign Trade (in percentages)

Period	1953- 1956	1957-60	1961- 1964	1965- 1970
Overall	6,4	16,0	12,3	13,8
Exports	7,8	15,5	11,9	9,0
Imports	5,6	16,4	12,6	17,4

Source: Oskar Kovač. *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 165.

2.1.1. Deterioration of Yugoslavia International Economic Position

Strong economic growth and increasing prosperity together with the country's foreign (trade) policy orientation and the relatively limited progress of Western European integration defined the Yugoslav policy towards the EEC until 1960. In 1961/62, however, the combination of international and internal developments had far-reaching influence on Yugoslav governing circles and prompted a reappraisal of their policy towards the EEC. First and foremost, top Yugoslav policy-makers were surprised by the success of the EEC. In the aftermath of the Khrushchev visit to the US and meeting with President Eisenhower in September 1959, they were convinced that the "Spirit of Camp David" would result in an accommodation between two superpowers.⁷ In a document drafted in October by the LCY Committee for International Relations, titled *Nova orijentacija u međunarodnoj politici i naši zadaci* (The new orientation in international politics and our tasks), they assumed that a lessening of East–West tensions in Europe would prompt a wider unravelling of the Western European organizations as Little Europe ("Montan-union") "had an exclusive bloc character and their internal cohesion was primarily founded on narrow military interests."⁸ In their view, the progress in the US–Soviet relations would make possible "for the creation, widening or renovation of the European institutions that were hitherto restricted to Western Europe or even narrower framework –

⁷ AJ, 507, ACK SKJ, IX, S/a-79-132, br. kut. 3, br. dok. 83, Nova orijentacija u međunarodnoj politici i naši zadaci, oktobar 1959, 1-2.

⁸ The document was drafted by a group of highest Party and Government officials, Edvard Kardelj, Petar Stambolić, Veljko Vlahović, Veljko Mićunović, Milentije Popović, Dobrivoj Radosavljević and Drago Vučinić. AJ, 507, ACK SKJ, IX, S/a-79-132, br. kut. 3, br. dok. 83, Zabilješka, 17 November 1959.

this time on a wider European basis. This presupposes overcoming their previous bloc character.”⁹

But soon the Yugoslav policy-makers realized that their assumptions were vastly wrong. The “first détente” was of short duration. The shooting down of the United States U-2 spy plane in Soviet airspace followed by the Berlin and Cuban Missile crises sharply increased Cold War tensions in the period from 1960 to 1962.¹⁰ Simultaneously, until early 1962 the EEC member states managed to consolidate the Community by reaching agreements on the most important common market policies – the CAP and the customs union. In the first period after the establishment of the Community, the implications of these policies were not entirely clear. The Treaty of Rome offered a broad framework for their implementation, while the member states and the Commission held contrasting views on the major issues crucial for the formation of these policies.¹¹ In May 1960 the Council of Ministers decided to accelerate the reduction of internal tariffs, and the following month the Commission presented the proposal for the CAP. The negotiations lasted for two years and finally in January 1962, after a “marathon” Council meeting, the industrial tariff reductions and the CAP regulation were passed.¹² Thus, the faster than expected advance towards an industrial customs union and a common commercial policy by accelerated harmonization of internal and external tariff policy, conjointly with setting up the basic design of the CAP, marked the emergence of the EEC as a powerful actor in the international economy.

From 1961 the Yugoslav authorities were getting increasingly worried about the accelerated pace of Western European integration.¹³ In a short period, integration spurred extraordinary economic growth among the EEC member states, which exceeded the Belgrade authorities’ expectations.¹⁴ The Community became the world’s largest trading bloc,

⁹ AJ, 507, ACK SKJ, IX, S/a-79-132, br. kut. 3, br. dok. 83, Nova orijentacija u međunarodnoj politici i naši zadaci, oktobar 1959, 8-9.

¹⁰ Vojtech Mastny, “Soviet Foreign Policy, 1953-1962,” in *The Cambridge History of the Cold War, Volume I: Origins*, ed. Melvyn P. Leffler et. al. (Cambridge: Cambridge University Press, 2010), 325-333.

¹¹ Andrew Moravcsik, *The Choice for Europe* (London and New York: Routledge, 1999), 161-164.

¹² Ann-Christina L. Knudsen, *Farmers on Welfare. The Making of Europe’s Common Agriculture Policy* (Ithaca and London: Cornell University Press, 2009), 162, 170, 195.

¹³ The Federal Foreign Trade Chamber had from 1957 analysed the impact of the EEC on Yugoslav foreign trade. In November 1961 a special cross-departmental Working Group was established by the Committee for Foreign Trade, Ministry of Foreign Affairs and Federal Foreign Trade Chamber. The Working Group was charged with examining the impact of the widening and deepening of the EEC on the Yugoslav economy, and measures to counterbalance the negative effects. DA MPS RS, PA, 1961, f 115, d 5, 435261, Beleška o sastanku Radne grupe za praćenje integracija u Z. Evropi, 25 November 1961; PA, 1961, f 115, d 7, 438742, Dopis Komiteta za spoljnu trgovinu Institutu za međunarodnu politiku i privredu, 26 December 1961, 1.

¹⁴ Predictions about the adverse impact of closer economic integration on the weaker member state economies, namely Italy and France, proved to be unfounded. In fact, the inter-industry trade among the EEC member states

accounting for 25% of world trade. Moreover, the EEC member states were the world's leading importers of agricultural products and raw materials, and leading exporters of capital goods. And while Yugoslav exports to the region decreased from 32.04% to 25.99% of total exports as a result of diversification of the country foreign trade in the period from 1957 to 1961 (in absolute terms, the value of exports has expanded), imports from the Community increased from 27.13% to 35.69%. This led to the aggravation of the balance of trade deficit, and in 1961 the Yugoslav exports to the EEC member states made up for only 44% of the value of imports from these countries. At the same time, imports from the US fell from 26.27% to 19.90%, and exports from 8.46% to 6.42%. Despite the crisis in the Soviet–Yugoslav relations, the COMECON countries remained an important trading partner, amounting to 18.58% of Yugoslav imports and 30.86% of its exports in 1961. Finally, the share of exports to the Third World countries steadily increased by 1961 to 14.86%, while imports remained low, amounting to 8.44% of the Yugoslav total imports in 1961 (see Table 19).

The structure of trade with the EEC member states was another reason for concern. Almost half of exports to the Community were agricultural products, and another 30% were raw materials. The country's industrial export structure was also highly unfavourable; Yugoslavia exported a negligible amount of finished industrial products – only 5.5% of the total – while semi-finished goods represented 14.4% of all the exports to the EEC. On the other hand, from the early 1950s these countries, principally West Germany and Italy, became the major supplier of machinery and equipment to Yugoslavia, providing for more than half of the country demand for capital goods.¹⁵ Yugoslavia's reliance on Western European technology led to import dependence on intermediate inputs from the EEC member countries. Finally, by 1961 the EEC member states passed the US to become the Yugoslav's largest creditor accounting for 39.2% the country's total external debt (the US was the second largest debt holder with 32%).¹⁶

doubled in the period 1957–1961. DA MPS RS, PA, 1962, f 102, d 4, 46381, Najnoviji momenti u vezi razvoja zapadnoeuropske integracije, 1 March 1962, 5.

¹⁵ About 89% of the Yugoslav exports to the EEC went to West Germany and Italy, while 81% of imports from the EEC came from these countries. The overall foreign trade between Yugoslavia and West Germany and Italy amounted to 85% of total EEC–Yugoslav foreign trade. DA MPS RS, PA, 1963, f 110, d 9 442275, Izvoz u zemlje ZT u 1962. godini, 25 February 1963, 1.

¹⁶ DA MPS RS, PA, 1962, f 102, d 4, 46381, Najnoviji momenti u vezi razvoja zapadnoeuropske integracije, 1 March 1962, 5, 7-8; PA, 1962, f-102, d 4, 46381, Naši ekonomski odnosi sa zemljama EEZ, 1 March 1962, 1; PA, 1963, f 110, d 9, 442275, Izvoz u zemlje ZT u 1962. godini, 2-3.

The accelerated Western European integration process had serious repercussions for the Yugoslav economy for several reasons. First, the establishment of a highly protective CAP in January 1962 based on external closure and extensive national subsidies severely threatened Yugoslav agricultural exports. Already in 1962, when the first regulations concerning cereals, pigs, eggs, and poultry entered into force, 16.6% of agricultural exports to the EEC were affected by the CAP.¹⁷ The dangers of a fully-implemented Common Agricultural Policy were not only limited to high protectionist barriers. The impact of the CAP would also, in view of the Yugoslav experts, artificially enhance the competitiveness of EEC agricultural producers by subsidizing their production and protecting them from the outside competition. Such policies would in the long run reduce the export opportunities for Yugoslav agricultural products to the EEC.¹⁸ This, though, was not the only influence on the Yugoslav economy. In March 1962, a cross-departmental government Working Group calculated the loss of Yugoslav exports to the Community caused by trade discrimination at USD10 million in 1962. Furthermore, according to this report they expected much more severe economic consequences from 1966/67, with the mutual abolition of tariffs on industrial goods between EEC member states and the introduction of a fully common external tariff.¹⁹

Apart from the economic effects, the implementation of the EEC policies had a direct impact on the Yugoslav bilateral trading relations with the member countries. From 1960, the member states had to incorporate the so-called “EEC clause” in trade agreements with third countries, which stipulated that the trade agreements would be renegotiated when required to ensure the application of Community legislation. The EEC Council decision to introduce such a clause in existing trading agreements was designed to secure gradual transition towards the Common Commercial Policy. Although there were different opinions within the government circles about whether to concur with the EEC clause, they had little choice but to acquiesce to this provision. Already in December 1960, the Yugoslav government signed a

¹⁷ DA MPS RS, PA, 1962, f-104, d 3, 443398, Mehanizam agrarne politike EEZ i jugoslavenski poljoprivredni izvoz, 20 July 1962, 5.

¹⁸ Although they recognized the beef shortage in the EEC due to increased consumption, the Yugoslav authorities noticed that from 1959 in France the beef production had grown very rapidly. DA MPS RS, PA, 1963, f-110, d 9, 442275, Izvoz u zemlje ZT u 1962. godini, 25 February 1963, 9-12.

¹⁹ Federal Institute for Economic Planning estimated that in a ten year period Yugoslavia could suffer because of the EEC trade discrimination an economic loss of 5 to 10% of GDP. DA MPS RS, PA, 1962, f-102, d 4, 46381, Naši ekonomski odnosi sa zemljama EEZ, 1 March 1962, 3-4; PA, f-104, d. 2, 442813, Zapisnik sa sednice Odbora za ekonomske odnose sa inostranstvom SIV-a održane 12. marta 1962, 8.

trade agreement with France containing the EEC clause. The identical clause was included in trading agreements with Italy and the Benelux countries in 1961.²⁰

The impressive accomplishments of the EEC's initial phase changed the way in which Yugoslav policy-makers perceived the Community. The success of the EEC until early 1962 indicated that the drive for greater political, economic and institutional integration, which was at that point being discussed among the Six, was likely to be completed. Especially the introduction of majority voting in the EEC institutions scheduled to come into existence from 1966 would, according to the Yugoslav estimates, strengthen the Community. The Hallstein Commission's ambitious plan to develop competition, social, regional, energy and transport policy, research and development policy, and even foreign policy, was yet another sign of the momentous change in Western Europe. The increased role of the EEC in international relations also captured the attention of the Yugoslav policy-makers. By 1962 forty-one countries had diplomatically recognized the Community and established formal relations with the European Commission.²¹ But the crucial moment that had an enormous impact on the reformulation of the Yugoslav policy towards the EEC in 1962 was the British government decision, announced on 31 July 1961, to apply for membership of the EEC.

Britain's EEC application made the Yugoslav international economic position even more vulnerable, especially as it impelled other Western European countries to reevaluate their policies towards the Six. In short order, Denmark, Ireland, and Norway decided to seek full membership of the EEC, while Sweden, Finland, Austria, Switzerland, and Spain asked for association agreements with the Community.²² A few weeks before the British decision, on 9 July, the Community signed the Association Treaty with Greece, while in April negotiations were opened with Turkey. In September Israel also requested a launch of talks about an association agreement. Despite the uncertainty of the outcome of these developments, in

²⁰ The Ministry of Foreign Affairs examined several responses to the EEC member states insistence on the EEC clause: 1) to agree with the EEC clause; 2) to refuse the EEC clause and instead admit the termination clause which would allow for premature termination of trade agreements; 3) to refuse the EEC clause and thereby accept the possibility that new trading agreements with the EEC countries would not be concluded. The government decided to accept the EEC clause, but insisted on the incorporation of reciprocity into this provision. In other words, any changes of trading agreements because of the Community policies would first have to be negotiated between two parties. In 1962 Yugoslavia decisively rejected the Bonn government proposition of the EEC clause according to which West Germany could unilaterally revise trading agreements. DA MSP RS, PA, 1962, f-103, d 1, 413329, Zabeleška o regulisanju bilateralnih trgovinskih ugovora sa članicama EEZ, 1-5.

²¹ DA MPS RS, PA, 1962, f 102, d 4, 46381, Najnoviji momenti u vezi razvoja zapadnoeuropske integracije, 1 March 1962, 4-10.

²² Piers N. Ludlow, *Dealing with Britain. The Six and the First UK Application to the EEC* (Cambridge: Cambridge University Press, 1997), 1.

Yugoslav policy-circles there was no doubt that Britain, as well as other applicant countries, would indeed enter the Community. They also assumed that Sweden, Switzerland, and Austria would obtain an associate status with the EEC easily, while Israel and Turkey because of political reasons were also likely to gain favoured position in trade with the EEC.²³ The fast-approaching EEC enlargement and the association of almost all European countries, apart from the Eastern European states, and some Mediterranean countries resulted in increased uncertainty about the future of Yugoslavia's trading relations with the Western Europe.²⁴

The first assessments by the Committee for Foreign Trade from November 1961 were most upsetting. The UK and the EEC member states together accounted for 34.5% of total Yugoslav exports, and 40.8% of imports (Denmark, Ireland, and Norway were minor Yugoslav trading partners). 59.6% of the Yugoslav exports to the UK were agricultural products (mostly bacon, luncheon meat and tin fish products), followed by raw materials (10%), semi-finished goods (10.8%) and industrial products (9.2%). In the changed economic landscape, the CAP would affect nearly all Yugoslav agricultural exports. Yugoslav industrial exports would also face almost double the tariff barriers entering the UK, with a share of levies in the total value of its industrial exports increasing from 8.6% to 17%.²⁵ The Yugoslav authorities were even more concerned as their attempts to open discussion with the British government about the negative impact of British EEC membership on Anglo-Yugoslav trading relations proved fruitless.²⁶ All in all, the Yugoslav government could only draw the conclusion that the enlargement would have significant adverse effects on the Yugoslav exports to the EEC, while at the same time the country would become far too economically dependent on the Community.

²³ DA MPS RS, PA, 1962, f-102, d 4, 46381, Najnoviji momenti u vezi razvoja zapadnoeuropske integracije, 1 March 1962, 11, 14-15.

²⁴ DA MSP RS, PA, 1961, f-115, d 7, 440275, DSIP, Referada za zapadnoeuropsku integraciju: Nacrt teksta za izvještaj SIV-a za 1961. godinu, 18 December 1961, 1-3.

²⁵ DA MSP RS, PA, 1961, f-115, d 5, 434891, Ocena posledica pristupanja V. Britanije Zajedničkom tržištu na jugoslavenski izvoz u V. Britaniju, November 1961, 1-7; PA, 1962, f-102, d 4, 46381, Naši ekonomski odnosi sa zemljama EEZ, 1 March 1962, 1-2.

²⁶ Sergej Kraigher, president of the Committee for Foreign Trade, opened this issue in discussion with the UK Minister of State for Trade Frederick Erroll at the meeting in Geneva on 29 November 1961. Erroll responded that there was no point in discussing this issue, as there were no concrete data available to demonstrate the extent to which trade between two countries would be affected. He only expressed optimism that the tariff barriers on industrial products would be reduced with the British accession to the Community, while at the same time admitting that the access conditions to the UK market for Yugoslav agricultural exporters would be more difficult. DA MSP RS, PA, 1961, f 115, d 7, 440269, Beleška o razgovoru druga S. Krajgera, predsednika Komiteta za spoljnu trgovinu sa g. Frederik Erroll-om, ministrom trgovine Velike Britanije, 29 November 1961, 1-2.

Along with the emergence of a major protectionist trading bloc in Western Europe, in 1961/62 US–Yugoslav relations substantially deteriorated to their lowest point since 1948. The crisis in the relationship with the US also had a significant impact on Yugoslav policy-makers. As already explained, Yugoslavia continued to receive economic aid and financial support from the US government after the end of the Tripartite Economic Aid program. In the period from 1955 to 1960, Yugoslavia received USD420.5 million of American economic aid.²⁷ At the end of this period Western long-term investment loans became much more important for the Yugoslav government. In 1959 and 1960 the US Development Loan Fund (DLF) granted six credit arrangements to Yugoslavia totaling USD89.3 million.²⁸ Furthermore, in 1959 the Yugoslav government reached an agreement with the US regarding its pre-war debts, a prerequisite for regaining access to World Bank’s credits.

Table 6: Composition of capital inflows into Yugoslavia in percentages (1954–1963)

Foreign loans	40,3 %
Foreign aid	28,4 %
Trade credits	10,1 %
Reparations and restitutions	5,9 %
Foreign-exchange reserves	3,3 %
Other	11,4 %
TOTAL:	100 %

Source: Oskar Kovač. *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 164.

Undoubtedly, for Yugoslavia, US economic aid and investment loans were vital to maintaining a high rate of economic growth. Therefore, the rapid worsening of relations in 1961 gravely concerned the Yugoslav leadership. At first, in early 1961, when Kennedy became the US president, the prospect of further improvement in US–Yugoslav cooperation looked promising as the new Administration was determined to foster relations with the

²⁷ The food deliveries of which a major proportion was wheat, given according to the Farm Surplus Act (PL 480), accounted for USD359.3 million, Slobodan Branković, *Impact of Foreign Aid on the Postwar Development of Yugoslavia* (Geneva: UNESCO, 1962), 10.

²⁸ *Ibid*, 9-10, 11-12.

Belgrade government. For this reason, Kennedy appointed a high-profile diplomat, George Kennan, as Ambassador to Yugoslavia. His role was to ensure continuation of the independent Yugoslav position in international affairs and to strengthen the US influence in the region.²⁹ Early on, however, the differences between the two governments over the main international issues became apparent. In April, the Yugoslav critique of the US following the Bay of Pigs invasion heightened tensions between the two countries. The escalation of the Cold War confrontation and the Yugoslav policy which was in line with Moscow and opposed to Western positions on most international issues raised further dissatisfaction within the US establishment. Another setback in the relationship was a rigorous law on media devised to counteract Western ideas and influence on the Yugoslav society.³⁰ But the most divisive issue between two countries was the Yugoslav policy towards Third World countries. The Kennedy Administration came to power with an ideological commitment to reasserting American influence in these countries by using “soft power.”³¹ Although US policy-makers were not enthusiastic about the Yugoslav concept of non-alignment, as long as Belgrade remained neutral and acted as a moderating force within this group of nations, they were ready to tolerate Belgrade’s approach. Consequently, the first conference of non-aligned countries, which took place in Belgrade in September 1961, had a significant impact on relations between two countries.

The road to the Belgrade Conference began in July 1956 when Tito, Nasser and India’s Prime Minister Nehru – the “fathers of Non-Aligned Movement” – met on the Adriatic island of Brioni. They insisted on principles of “peaceful and active coexistence” as the cornerstone of international relations in the world divided by the Cold War. Following the renewed conflict with Soviets in 1958, Tito began to intensively seek alliances with Asian and African leaders. The Yugoslav leadership was hoping for more concrete forms of cooperation between these countries in order to secure their greater independence from the Eastern and Western bloc. It also felt that the process of decolonization and increased Cold War tensions created an opportune moment for developing non-aligned countries to voice their views on the issues of world peace, disarmament, nuclear test ban, colonialism, economic inequality, etc. In Tito’s view, such a joint action of the Third World countries had

²⁹ Josip Moćnik, *United States-Yugoslav Relation 1961-80: The Twilight of Tito’s Era and the Role of Ambassadorial Diplomacy in the Making of America’s Yugoslav Policy* (PhD diss., Bowling Green: Bowling Green State University, 2008), 11-12.

³⁰ Dragan Bogetić, *Jugoslavensko-američki odnosi 1961-1971* (Beograd: Institut za savremenu istoriju, 2012), 20-25.

³¹ Odd Arne Westad, *The Global Cold War. Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2005), 34-37.

to strengthen Belgrade position in the international affairs and to act as a platform for Yugoslav diplomacy in addressing a wide number of political and economic issues.³²

The Belgrade Conference, for the most part, was a remarkable success of Yugoslav diplomacy. It confirmed Yugoslavia's outstanding position as an independent socialist European country in the non-aligned movement and Tito's leading role among the leaders of the Third World countries.³³ The Western, especially the US reactions to the Conference, however, were profoundly negative. Particularly galling for Western diplomats, most notably George Kennan, was Tito's speech in which he sharply criticized Western powers on a number of issues, but failed to denounce the Soviet resumption of nuclear tests. Kennan portrayed Tito's speech as a "deep disappointment," and Yugoslav alignment in the ranks of "pro-Soviet extremists" as the "biggest surprise of the conference."³⁴

Indeed, Tito's anti-Western rhetoric during the summit led to a severe deterioration of Yugoslav relations with the Western countries. The US grew particularly reluctant to continue the program of foreign aid to Yugoslavia. The Kennedy Administration, although still determined to continue the US policy towards Yugoslavia, was faced with increasing political pressure from Congress and the public to end the US support for the Belgrade government. In late 1961, the Administration reviewed the US trade and aid policy towards Yugoslavia and came to the decision that aid should be pulled back.³⁵ In June 1962, as the Cold War conflict intensified and with forthcoming elections, the US House of Representatives decided to terminate the aid program altogether (allowing only surplus food

³² Jovan Čavoški, "Between Great Powers and Third World neutralists. Yugoslavia and the Belgrade Conference of the Non-Aligned Movement, 1961", in *The Non-Aligned Movement and the Cold War: Delhi – Bandung – Belgrade*, ed. Nataša Mišković et. al. (London and New York: Routledge, 2014), 189-197; Robert Rakove, "Two roads to Belgrade: the United States, Great Britain, and the first nonaligned conference", *Cold War History* 14, no. 3 (2014): 341; Bogetić, *Nova strategija spoljne politike Jugoslavije 1956-1961*, 309-314, 355-366.

³³ The delegates of 25 participating countries managed to reach consensus on a number of wide-ranging issues. The conference called for peace and reduction of East-West tensions; abolition of all forms of colonialism, neo-colonialism and imperialism; the right to independence for small nations; increased economic and technical international assistance to the developing countries, etc. Čavoški. „Between Great Powers and Third World neutralists“, 198-199.

³⁴ Rakove, "Two roads to Belgrade", 352; See more about the US reaction to the Yugoslav stand at the Belgrade conference in Moćnik, *United States-Yugoslav Relation 1961-80*, 27-36.

³⁵ In January 1962 Dean Rusk, the US Secretary of State, explained to Yugoslav ambassador Marko Nikezić the impacts of transformation of the US foreign assistance organizations in 1961 (USAID, the US Agency for International Development, became the only US organization charged for administering aid to foreign countries). Rusk pointed out that the new US foreign development assistance programme will envisage less financial support for the Yugoslav development projects, taking into account new demands for US assistance from the under-developed areas, limited US resources, and ideological differences between the US and Yugoslavia. Such US policy towards Yugoslavia was approved by Kennedy on January 15. Bogetić, *Jugoslavensko-američki odnosi 1961-1971*, 56-59; FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, National Security Action Memorandum No. 123, Washington, January 15, 1962.

aid program to continue) and to revoke Yugoslavia's most-favoured-nation (MFN) status. Although the Kennedy Administration opposed these measures since it feared they would push Yugoslavia back toward, and ultimately under, Soviet domination, it failed to block Congress passing them into law.³⁶

Relations with the former Western European colonial powers, France and Belgium, were also aggravated in this period. Franco–Yugoslav relations, starting with the Suez crisis, have experienced setbacks throughout the second half of the 1950s. Yugoslav support for the Algerian National Liberation Front (FLN) was the key sticking point in bilateral relations.³⁷ The election of de Gaulle as president of the new Fifth Republic did not change much. At first, Yugoslav policy-makers welcomed de Gaulle's return to power, despite his well-known anti-communism. As Katarina Todić observes, Gaullism had many similarities with Titoism. Both leaders were pursuing an independent foreign policy and aspired to overcome the Cold War division of Europe by playing an active role in the international arena. While De Gaulle's conception of Europe "from the Atlantic to the Urals" was consistent with the Yugoslav interest in an independent Western Europe capable of breaking free of the US tutelage, there were profound differences between these two visions of the international order, primarily regarding the role of the great powers and the future of communism.³⁸ Of critical importance was the French opposition to Yugoslav non-alignment policy and support for anticolonial movements. In the early 1960s France was extremely wary of Yugoslavia's growing political influence in the Third World countries, especially in Africa.³⁹ The downward spiral in relationship hit absolute bottom in February 1962, when France decided to break off diplomatic relations with Yugoslavia after the Belgrade government *de iure* recognized Provisional Government of the Algerian Republic (GPRA) at the Belgrade Conference.⁴⁰

Unlike Franco–Yugoslav relations, bilateral relations between Yugoslavia and Belgium were generally amiable during the 1950s. The Congo crisis, however, which began

³⁶ Yugoslavia was the only communist country that enjoyed MFN status from 1951. See more about the Yugoslav–US relations in the early 1960s in Bogetić, *Jugoslavensko-američki odnosi 1961-1971*, 74-75.

³⁷ In January 1958 French navy intercepted a Yugoslavian vessel, the *Slovenija*, under suspicion that it was carrying arms for the FLN. In 1960 six more ships were seized by France under the same accusation. Katarina Todić, *A Traditional Friendship? France and Yugoslavia in the Cold War World, 1944-1969* (PhD diss., McMaster University, Hamilton, 2015), 192-195, 227.

³⁸ *Ibid.*, 197-198, 209, 225-226, 228.

³⁹ AJ KPR, 837, I-3-a/27-35, Odnosi SFRJ-Francuska, 13 September 1966, 1-3.

⁴⁰ DDF, 1962, Tome I, doc. 32, Note de la Sous-Direction d'Europe Orientale, Rapports franco-yougoslaves, Paris, 31 janvier 1962, 75-78; "Izjava o priznanju alžirske vlade", 5 September 1961, in *Tito. Govor i članci* (Zagreb: Naprijed, 1965), 17: 90; See also in: Todić, "A Traditional Friendship?", 240-242.

in mid-1960, severely strained relations between two countries. From beginning of the crisis Yugoslavia has been highly critical of Belgium policy towards Congo and its role in fall and assassination of the latter's first Prime Minister, Patrice Lumumba.⁴¹ Therefore, official relations cooled somewhat from 1960 to 1962. In this period the Belgium government postponed some state visits amid diplomatic tensions; denied further financial credits to Yugoslavia; delayed signing of the cultural cooperation agreement; and curtailed contacts with the Yugoslav Embassy in Brussels etc.⁴²

On the whole, the Yugoslav government found itself in particularly difficult international economic position in the early 1962. The relations between the US and Yugoslavia were going through one of the most serious crises. The complex interplay of ideological and political factors raised doubts about further economic and financial cooperation between the two countries. Furthermore, Yugoslavia had no official diplomatic relations with the world's largest trading bloc, the EEC, which included the country's dominant trading partners, West Germany and Italy. The prospect of facing the discriminatory effects arising from a Western European regional bloc including Great Britain – with a highly protective CAP that seemed like an immediate reality in early 1962 – made the Yugoslav position even more difficult. The estranged political relationship with West Germany, France and Belgium was not helpful for the Yugoslav government either. The only major EEC member state that Yugoslavia could turn to was Italy. The Italian government had a substantial economic interest to safeguard its trading relationship with Yugoslavia, as the country had become sixth-largest export market for Italian goods, accounting for 3.2% of total Italian exports.⁴³ The strong economic ties also resulted in improved political relations between two countries.⁴⁴ Finally, the deterioration of Yugoslavia's relationship with the West

⁴¹ On 8 September 1960 Yugoslavia requested an urgent meeting of the Security Council because of the situation in Congo. One month later, on 19 December, the Yugoslav government sent a letter to the UN General Assembly pressing for UN intervention in Congo in order to set Lumumba free and to give support to his government. In the 1960–62 period Tito frequently criticized Belgium's "colonial policy" in Congo, e.g. in the presidential address to the Yugoslav Federal Assembly. "Govor na 15. zasjedanju Generalne skupštine UN-a", 22 September 1960, *Tito. Govori i članci* (Zagreb: Naprijed, 1962), 16: 16-17; "Poruka Generalnoj skupštini UN povodom debate o Kongu", 19 December 1960, *Tito. Govori i članci* (Zagreb: Naprijed, 1962), 16: 117; "Mi smjelo idemo ka ostvarenju velike budućnosti sadašnjoj i budućim generacijama–Ekspoze u Saveznoj narodnoj skupštini", 26 December 1960, *Tito. Govori i članci* (Zagreb: Naprijed, 1962), 16: 133-137.

⁴² AJ KPR, 837, I-5-b/9-2, Informacija povodom boravka delegacije Socijalističke partije Belgije, 1 October 1962, 6-7.

⁴³ DA MPS RS, PA, 1963, f 110, d 9 442275, Izvoz u zemlje ZT u 1962. godini, 25 February 1963, 4.

⁴⁴ In 1960 Koča Popović visited Italy, setting in motion increased diplomatic communication which prompted a significant improvement in bilateral relations. Karlo Ruzicic-Kessler, "Italy and Yugoslavia: from distrust to friendship in Cold War Europe," *Journal of Modern Italian Studies* 19, no. 5 (2014): 646.

did not significantly improve political and economic relations with the Soviet bloc.⁴⁵ In this period Yugoslav attempts at gaining observer status in the COMECON were repeatedly denied by the Soviets.⁴⁶

2.1.2. Economic Crisis

Yugoslavia's worsening international economic position coincided with the first serious economic crisis since 1952. The Yugoslav authorities, anxious to encourage the efficiency of investments and under the pressure of a huge balance of payments deficit, decided in March 1961 to liberalize the economic system by introducing changes in the mechanism of income distribution of enterprises, banking, foreign trade and foreign exchange system.⁴⁷ The reform also aimed at alleviating discriminatory trade effects of the EEC by preparing the Yugoslav economy for GATT accession.⁴⁸

The implementation of the so-called "little" economic reform was followed by an economic recession in 1961–62.⁴⁹ Even though the first signs of the economic slowdown were already visible in 1960, after a decade of high economic growth the crisis has taken the Yugoslav authorities and economists by surprise.⁵⁰ The reform and ensuing crisis had revealed the economic imbalances and structural maladjustments of the Yugoslav economy

⁴⁵ The Soviet leaders welcomed Tito's anti-western rhetoric at the Belgrade conference, but remained critical of Yugoslavia's policy of non-alignment, Belgrade's critiques of Soviet Cold War foreign policy, and the idea of building socialism outside the Soviet bloc, which threatened the monolithic unity of the Communist bloc and the leading role of the Soviet party. Dragan Bogetić, "Jugoslavensko-sovjetski odnosi početkom 60-ih godina", *Istorija 20. veka* 19, no. 3 (2011): 205-210.

⁴⁶ Although Yugoslav trade with the COMECON countries was based on bilateral arrangements, and there were no special mechanisms that would discriminate against Yugoslav exports in these markets, the Yugoslav government was concerned about the indirect effects of Eastern European integration, namely the specialization of their production in certain industrial sectors which could have curtailed Yugoslav exports. Therefore, the Yugoslav government asked for observer status with the COMECON in March and December 1959, and again in October 1960. AJ KPR 837, I-3-a/101-33, Odnosi FNRJ–SSSR: Ekonomski problemi, 17 April 1962, 4-5.

⁴⁷ AJ KPR, 837, III-B-2-b, br. kut. 74, Informacija o predlogu devizne reforme, 1 July 1960, 1-6; John Lampe et. al., *Američko-jugoslavenski ekonomski odnosi posle Drugog svetskog rata* (Beograd: NIP Radnička štampa, 1990), 62.

⁴⁸ In 1961, Yugoslavia submitted a permanent tariff schedule to the GATT and the application for membership. Radovan Vukadinović, "Mehanizam djelovanja GATT-a i međunarodna ekonomska suradnja", *Politička misao* 2, no. 3 (1965): 142-145; AJ KPR, 837, III-B-2-b, br. kut. 74, Informacija o predlogu devizne reforme, 1 July 1960, 11.

⁴⁹ Branko Horvat, *Business Cycles in Yugoslavia* (White Plains, N.Y.: International Arts and Sciences Press, 1971), 180-182.

⁵⁰ The decline in the economic growth rate in 1960 was dismissed by authorities as "within the framework of normal fluctuations". Dennison Rusinow, *The Yugoslav experiment, 1948-1974* (London: C. Hurst for the Royal Institute of International Affairs, 1977), 10.

which were mainly the result of the extensive growth strategy. Namely, the drive towards economic expansion had led towards overinvestment, wasteful and ineffective investments driven by political decisions, low and lagging productivity, growing inflation and the import dependency of the Yugoslav industry. The slowdown in the growth rate of industry was concurrent with the decrease in agricultural production because of drought in 1961 and 1962.⁵¹ The drop in agricultural production showed that this major problem of the Yugoslav economy had not been solved. What is more, the inefficient economic system, low agricultural production, and noncompetitive industry further aggravated the external imbalance of the economy. Instead of a gradual reduction of the foreign payments deficit, in 1962 the deficit soared to an astonishing USD140 million.⁵²

A mounting balance of payments deficit and foreign debt indicated the economy's vulnerability.⁵³ The policy of industrialization in the 1950s with basic stress on heavy industry created an economic structure in which the agricultural sector – despite government efforts to modernize it – remained largely underdeveloped while at the same time the extractive industry and raw material sectors were unable to sustain oversized industrial capacities. Furthermore, the Yugoslav economy became heavily dependent on imported, dominantly Western European machinery, components, semi-finished goods and some raw materials.⁵⁴ Such a highly import-dependent industrial structure resulted in a further worsening of the external imbalance of the Yugoslav economy. More importantly, as it was explained in the introduction, the import-dependent nature of industry became a serious hindrance to the economic development and growth of the economy overall.⁵⁵

⁵¹ Growth of production in industry amounted to 15% in 1959/60, 7% in 1960/61 and only 4% in the first half of 1962. At the same time, the rate of productivity growth fell from 7% in 1959/60, to 3% in 1961, and 2% in 1962. AJ, 507, ACK SKJ II/22, O tekućim problemima ekonomske politike. Referat Borisa Krajgera na IV plenumu CK SKJ, 22 July 1962, 7.

⁵² Mijalko Todorović informed the Party leadership about the deteriorating economic situation in October 1961. In July 1962 Boris Krajger prepared a detailed report about the economic crisis for the Central Committee plenum. Krajger underlined the importance of understanding the true causes behind the crisis which required detailed economic and empirical analyses. Therefore, in the following period the government agencies and economic institutes were committed to understand the nature of this crisis and the causes essential to explaining it (see introduction). AJ, 507, ACK SKJ, III/86, Zapisnik sa sednice Izvršnog komiteta Centralnog komiteta SKJ održane 13. oktobra 1961, 13-16; ACK SKJ II/22, O tekućim problemima ekonomske politike. Referat Borisa Krajgera na IV plenumu CK SKJ, 22 July 1962, 1-34.

⁵³ AJ KPR, 837, III-B-1-b, br. kut. 70, Devizni bilans 1961, 11 September 1961, 1-8.

⁵⁴ DA MPS RS, PA, f-102, d 4, 46381, Naši ekonomski odnosi sa zemljama EEZ, 1 March 1962, 2-3. See also in: Oskar Kovač, *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 10-12.

⁵⁵ See also: Leon Rip, "Uticao spoljne trgovine na porast proizvodnje u Jugoslaviji", *Međunarodni problemi* 13, no. 4 (1961): 111-115; Leon Rip, "Međuzavisnost proizvodnje i uvoza reprodukcionog materijala u razvoju

Table 7: Industrial exports and imports of intermediate inputs in their production (in millions of dinars)

Year	Industrial Exports	Imports of intermediate input in their production	%
1962	4.682,2	3.707,2	79,0 %
1966	11.321,3	9.304,1	82,1 %
1968	13.141,8	10.971,8	83,4 %

Source: Oskar Kovač. *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 198.

The issue of external economic instability which has already in the late 1950s became a fundamental economic problem, has now evolved into a pressing political question. As a leading Slovenian communist Boris Krajger (1914-1967), the President of FEC Committee for the Economy and one of the authors of the economic reform of 1965, noticed a few months before he was elected for Vice-President of FEC in June 1962, “the primary cause of our political and economic crisis, and the crisis in the development of our system, is precisely the actual crisis in the balance of payments.”⁵⁶ The economic and political crisis had two aspects which were deeply interlinked. Internally, the crisis had further emphasized the growing differences within the Yugoslav leadership over the future direction of the country’s society, political system, and economy. Externally, as the economy deteriorated, Yugoslavia’s international position became more and more difficult. Especially the impending increase in foreign debt payments to the West added to the strain on the balance of payments and thus made Yugoslav policies untenable. As the main sources of external financing which covered the balance of payments deficit and financed Yugoslavia’s ambitious investment programme came from Western Europe and the US, the increasing uncertainty about the continuation of the US financial support as well as access to the Common Market, had once again put foreign trade relations at the centre of economic policy.

jugoslavenske privrede”, *Međunarodni problemi* 15, no. 2 (1963): 23-37; Mijo Sekulić, “Zavisnost jugoslavenske privrede o uvozu”, *Ekonomski pregled*, no. 9-10 (1965): 635-657.

⁵⁶ Vukmanović also shared this view. According to him “all of our economic difficulties are arising from the current account deficit. Here they find its condensed articulation.” *Početak kraja SFRJ. Stenogram i drugi prateći dokumenti proširene sednice Izvršnog komiteta CK SKJ održane 14-16. marta 1962. godine*, ed. Miodrag Zečević (Beograd: Arhiv Jugoslavije, 1998), 70, 238.

Table 8: The share of foreign debt payments in current account (in percentages)

Year	Convertible currency area	Clearing currency area
1960	18,0	4,2
1961	22,0	3,5
1962	21,0	3,9
1963	22,0	4,9
1964	29,0	2,5
1965	28,0	4,7
1966	27,0	6,1
1967	25,0	2,0
1968	23,0	6,3
1969	24,0	0,6

Source: Oskar Kovač. *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 224.

When commenting on the economic situation in 1962, Todorović stressed that “this undoubtedly weakens (...) our international position and prestige (...) not only because we are becoming indebted, and as a result of the balance of payments more and more dependent on foreign countries, but over and above it influences our internal development.”⁵⁷ Thus, in order to avoid growing foreign indebtedness that would ultimately compromise the financial independence of the country, and creating economic imbalances that would have serious social and political repercussions, the government had to reassess its economic and foreign trade policy. Policy towards Western Europe and the EEC was one of the focal points of this debate.

Table 9: Debt-service payment schedule (in millions of USD)

Year	Total payments	EEC countries	EEC countries (in percentages)
1962	202,1	132,3	65,46%
1963	155,3	82,0	52,80%
1964	179,2	79,0	44,08%
1965	134,5	74,7	55,53%
1966	177,9	65,7	36,93%
1967	83,2	53,3	64,06%

Source: AJ SIV, 130, fascikla 256-362, Međunarodni finansijski položaj Jugoslavije (dugovi i njihova otplata), July 1962, 10, 13.

⁵⁷ Ibid, 38.

2.2. Dealing with the EEC

The Yugoslav position towards the EEC was for the first time discussed at the highest political level at the meeting of enlarged LCY CC Executive Committee from 14 to 16 March 1962. Tito convened the meeting of the top Party and Government officials to discuss the economic crisis and political differences within the Yugoslav leadership. By early 1962 the polarization of the political establishment, which had begun in the early 1950s, became evident. On the one side liberals were pressing for further democratization and decentralization of the economic and political system by strengthening the powers of the enterprises, market economic mechanism, and republics' autonomy. Conservatives, on the other side, favoured a centralist, Soviet-styled economic and political system (therefore they were also called centralist or unitarist).⁵⁸ The polarization began to take shape along the republic lines as well. Western, most developed republics, Slovenia and Croatia, led by Kardelj and Vladimir Bakarić (1912–1983), vigorously advocated further decentralization in the economic and political sphere. Serbian leadership, personified by Aleksandar Ranković (1909–1983), who controlled the Party apparatus and the secret police (UDB-a), was strongly opposed to these reforms and interested in retaining the status quo.⁵⁹

The three-day Party meeting for the first time openly revealed the fundamental differences between the two party factions. At the meeting, Tito made an effort to reach a consensus among them which should have ensured lasting political and economic stability of the country. The failure to bridge the gap between the two starkly different visions of Yugoslavia culminated in a far-reaching political crisis. Bilandžić even argues that this meeting marks the beginning of the end of socialist Yugoslavia.⁶⁰ Still, despite the vast gulf

⁵⁸ Sabrina Ramet points out that liberals favoured decentralization and the deepening of federalism, emphasis on profitability in investments, a more open society with greater respect for human rights, loose Party supervision of society, pluralism within the Party, and prioritization of the needs of the Yugoslav republics. Conservatives, on the contrary, favoured a strong central government and Party, emphasis on the political goals to be accomplished through investments, a less open society with tighter censorship and social controls, tight Party control of all socio-political organizations, democratic centralism, and the rendering of priority to federal needs over the needs of individual federal units. Sabrina Ramet, *Nationalism and Federalism in Yugoslavia, 1962-1991* (Bloomington and Indianapolis: Indiana University Press, 1992), 83.

⁵⁹ Both Ranković and Kardelj were the Vice-Presidents of the FEC from 1953 to 1963. Before that, Kardelj was the Foreign Minister of Yugoslavia from 1948 to 1953, while Ranković created the Yugoslav secret police (OZNA) in 1944 (renamed UDB-a in 1946). After the war Ranković served as the Minister of Internal Affairs from 1946 to 1953. Bakarić, regardless the fact that he did not occupy prominent position in the federal government, was as a leading Croatian communist and close associate of Tito one of the most powerful members of the Yugoslav establishment.

⁶⁰ Bilandžić especially emphasised that in his opening address Tito expressed doubts about the future of Yugoslavia by saying the following: "Primarily, I must say that there is a lack of discipline, disunity of thought

between these factions, the division within party ranks remained blurred, on the surface at least, until the mid-1960s.

The debate about the profound and wide-ranging economic and political issues brought to light the problem of Yugoslav's trade with Western Europe and the Belgrade policy towards the EEC. In an opening discussion in which he elaborated the economic situation, Todorović particularly emphasized the overall precarious position in international trade as a result of strained relations with the US and Western Europe.⁶¹ The fact that Yugoslavia was positioned between the Western and Eastern economic blocs, without formal trading agreements with them, concerned the key economic policy-makers. Few of them even voiced their despair regarding the impact of the Western economic organizations on the Yugoslav trade. Most notably, Vukmanović stressed that the Yugoslavia's infant industries, in particular, could not compete in the foreign markets because of them.⁶² During the debate, the fact that problems related to the European integration processes had not been discussed in the highest political circles in the past was criticized.⁶³ Miloš Minić (1914–2003), president of the Serbian government who was in the aftermath of the meeting reassigned to the federal government in a key economic policy-making position, concisely described the Yugoslav position and the shortcomings of its policy:

I claim that we don't have any concept regarding our perspective between the blocs. (...). The decisive point about our exports is following. We had various potentials [and] capacities (...). However, now our industrial structure and production require different concept regarding our exports. We have to look for solutions to expand our exports through reorientation of the internal production. We are going to encounter a relentless competition. Our exports are going to decrease if we do not act

and action among communists on different topics concerning the development of our society, first and foremost among the leading communists in the highest positions. (...) This has led, comrades, to a situation where our society and its prestige in the world are threatened, and if we, the communists, do not seriously address these problems (...) that is, if we do not take forceful measures – it is clear that there could be unforeseeable consequences. What kind of [negative] atmosphere we have (...) at the meetings of FEC! (...) One often asks oneself: well, is this land of ours genuinely able to keep on, and not fall apart? (...) This raises the question: Is this [Yugoslav] community mature for life, or not?" Zečević, *Početak kraja SFRJ*, 31-32; Dušan Bilandžić, "Raskol u državno-partijskome vrhu 60-tih godina 20. stoljeća – početak raspada Jugoslavije," in *Dijalog povjesničara – istoričara* 8, ed. Hans-Georg Fleck and Igor Graovac (Zagreb: Zaklada Friedrich-Naumann, 2004), 33-35.

⁶¹ Zečević, *Početak kraja SFRJ*, 43-45.

⁶² As he illustratively explained it, "(...) in relations to these closed markets (...). This is a difficult problem. I had a discussion in Austria, and I have asked them – what do you expect in dealing with them? They answered we don't know exactly what we want. If we enter into them – it will not be good for us, but if we stay out – it will be just the same." Ibid, 73.

⁶³ Josip Kolar, member of the FEC Committee for the Economy, raised this issue. Ibid, 168.

energetically and efficiently. On the one side, we are faced with the competition from the Western countries' industries that are modernized incredibly rapidly; on the other side, we have to cope with increasing discrimination and tariff barriers. I do not consider that the East will be more sentimental towards us (...). And what are we going to do in 1963, 1965, 1966 because then we will have to deal with this integration?⁶⁴

Although the party meeting did not resolve the internal party factionalism over key issues of the economic and political system, at the end of the meeting the leadership agreed on the necessity to protect Yugoslav economic interests in trade with the EEC and COMECON. A basic aim was to improve the country's balance of payments position by increasing exports and reducing non-essential imports. The object of such policy was to save foreign exchange necessary for imports of industrial raw materials and capital equipment which would raise domestic production and further enhance the export potential of the economy.⁶⁵ The Ministry of Foreign Affairs together with the Ministry of Foreign Trade and the Yugoslav Economic Chamber, in fact, had been working already from January on an action plan to counterbalance the discriminatory trading policies of the EEC.⁶⁶ On 12 March the FEC Committee for Foreign Trade organized a wide-ranging discussion regarding policy towards the EEC.⁶⁷ The FEC Coordinating Committee approved the set of policy measures which were proposed by this committee in April.⁶⁸

2.2.1. Conceptualizing the Yugoslav's EEC policy

Policy towards the EEC was essentially based on the concept of economic self-reliance. The Yugoslav government intended to raise exports of the products which were in demand in the EEC, while at the same time to reduce the imports from the EEC member countries, especially of the capital equipment and raw materials, by replacing them with imports from

⁶⁴ Ibid, 212.

⁶⁵ Predlog zaključaka sa proširene sednice IK CK SKJ održane 14., 15. i 16. marta 1962. godine, *ibid*, 263-265.

⁶⁶ DA MSP RS, PA, f-104, d. 2, 442602, Odnosi Jugoslavije sa Evropskom ekonomskom zajednicom, 22 January 1962, 1-17; PA, f-104, d. 2, 442810, Sadržaj diskusije na kolegijumu DSIP-a na dan 10.03.1962. koji se dostavlja kao dopuna materijala o reperkusijama stvaranja ZET-a na našu ekonomsku situaciju i odnose sa inostranstvom, 1-6.

⁶⁷ DA MSP RS, PA, f-104, d. 2, 442813, Zapisnik sa sednice Odbora za ekonomske odnose sa inostranstvom SIV-a održane 12. marta 1962; PA, f-104, d. 3, 442825, Stenografske beleške za ekonomske odnose sa inostranstvom SIV-a održane 12. marta 1962.

⁶⁸ DA MSP RS, PA, f-101, d. 6, 443758, Analiza stanja kontakata sa EEZ-om, 22 October 1962, 3.

the Eastern bloc and Third World countries. At the same time, the maximum priority was accorded to increasing the productivity of the economy and developing export and extractive industries as well as to the production of capital equipment which would lessen the import-dependency of industry. By developing these crucial sectors of the economy, policy-makers expected to raise the exports of final goods to a “convertible currency area,” or in other words to Western Europe.⁶⁹ The rationale behind the policy was that by balancing the production and foreign trade orientation Yugoslavia would continue a policy of modernization and industrialization, and at the same time reduce dependency on financing from Western sources. The strategy also stressed the importance of expeditiously developing the tourism and transportation sectors as to lessen the deficit in current balances of payment. Additionally, in order to improve the economy's international liquidity situation and prevent financial instability, the government decided to ask for a rescheduling of payments on Yugoslavia's short-term debt.⁷⁰

In substance, this policy was a more sophisticated elaboration of a foreign trade strategy that Yugoslavia had pursued from the mid-1950s. But now policy-makers were aware that Yugoslavia would have to find some *modus vivendi* with the EEC for two important reasons. First, the EEC – the world's largest market and Yugoslavia's biggest trading partner, has now become an undeniable reality. It was evident to the highest governing circles that in the foreseeable future, with the gradual implementation of the Community policies, Yugoslavia would have to establish a framework for a sustainable relationship with the EEC. Secondly, notwithstanding the initiatives targeting a structural transformation of the economy and broadening and diversification of the foreign trade pattern, policy-makers were aware that Yugoslavia would in a prolonged period depend on trade with the Western Europe.⁷¹ For this reason, the government adopted a comprehensive

⁶⁹ DA MSP RS, PA, f-104, d. 2, 442810, Sadržaj diskusije na kolegijumu DSIP-a na dan 10.03.1962. koji se dostavlja kao dopuna materijala o reperkusijama stvaranja ZET-a na našu ekonomsku situaciju i odnose sa inostranstvom, 4; PA, f-104, d. 2, 442813, Zapisnik sa sednice Odbora za ekonomske odnose sa inostranstvom SIV-a održane 12. marta 1962, 3-7; Strogo pov, 1962, f-II, sign 35, Predlozi i mere koje treba preduzeti u vezi naših odnosa sa EEZ, 23 March 1962, 2-11; AJ, 507, ACK SKJ II/22, O tekućim problemima ekonomske politike. Referat Borisa Krajgera na IV plenumu CK SKJ, 22 July 1962, 12-16, 31-32; ACK SKJ II/22, Stenografske beleške sa 4. plenarne sednice CK SKJ održane 22. i 23. jula 1962. u Beogradu, 137-141, 147-152; SIV, 130, 256-362, Međunarodni finansijski položaj Jugoslavije, July 1962, 2-6, 10-14, 19-20.

⁷⁰ DA MSP RS, Strogo pov, 1962, f-II, sign 35, Predlozi i mere koje treba preduzeti u vezi naših odnosa sa EEZ, 23 March 1962, 11; AJ SIV, 130, fascikla 256-362, Zapisnik sa 64. sjednice SIV-a, održane 9. oktobra 1962, 3-5; SIV, 130, 256-362, Međunarodni finansijski položaj Jugoslavije – Odbor za ekonomske odnose s inostranstvom, 20 July 1962, 1-3.

⁷¹ AJ, 507, ACK SKJ II/22, O tekućim problemima ekonomske politike. Referat Borisa Krajgera na IV plenumu CK SKJ, 22 July 1962, 31.

multi-level diplomatic strategy with the primary aim to secure the best possible access to the Common Market.

As a first step, at the bilateral level, Yugoslavia was keen to establish closer cooperation with neutral countries, namely Austria, Switzerland, Finland, Sweden, Norway, and Denmark, in order to expand mutual economic cooperation and promote their common economic interest's vis-à-vis the EEC. Yugoslav authorities were particularly interested in what kind of relationship European non-member states considered establishing with the EEC (apart from Norway and Denmark, which had applied for the EEC membership).⁷² The government also decided to explore ways to improve bilateral economic arrangements with France and Italy, which would reduce the EEC barriers to trade.⁷³ While France declined the exploratory talks on this issue, the Italian government decided to accept the Yugoslav initiative.⁷⁴ The Italian Minister for Foreign Trade, Luigi Preti, visited Belgrade from 24 to 26 April 1962.⁷⁵ The Yugoslav government draw attention to two main issues – the widening trade deficit with Italy and the economic effects of the EEC policies on their future trading relations.⁷⁶ Even though the proposal for a comprehensive long-term trading agreement which would secure predictable access to the Italian market was declined, the Italian delegation agreed to continue consultations between experts about the impact of the EEC on their trade.⁷⁷ Preti also made an effort to alleviate Yugoslav concerns regarding the EEC by making clear in a discussion with Kardelj that Italy would strongly defend Yugoslav interests

⁷² Yugoslav diplomacy in particular closely observed the common action of three neutral EFTA member states – Austria, Sweden and Switzerland – on the association question with the EEC in the period 1961–62. See more about their initiative in: Michael Gehler, “The Road to Brussels: Austria’s Integration Policy, 1955-72,” *Diplomacy & Statecraft* 13, no. 1 (2002): 161-165; DA MSP RS, PA, f-104, d. 3, 442940, Telegram DSIP-a ambasadama FNRJ u Beču, Bernu, Stokholmu, Oslu i Kopenhagenu, 6 April 1962; PA, f-104, d. 3, 443038, DSIP (II odeljenje): Zabeleška o konzultacijama sa neutralnim i prijateljskim evropskim zemljama u vezi Zajedničkog tržišta, 25 April 1962, 2-4; PA, f-103, d. 2, 416979, Telegram DSIP-a Ambasadi FNRJ u Kopenhagenu, 25 May 1962.

⁷³ DA MSP RS, PA, f-101, d. 1, 416716, Naši odnosi sa Evropskom ekonomskom zajednicom, 13 April 1962, 9.

⁷⁴ DA MSP RS, PA, f-102, d. 7, 412485, Zabeleška Jakše Mirka o razgovoru sa g. Jean-om Wahl-om, direktorom Službe za spoljno-trgovinsku politiku u Direkciji za spoljne ekonomske odnose, 12 April 1962, 1-3.

⁷⁵ Italy informed the Commission and other member states about the Yugoslav initiative. HAEU, CM2/1962/107, Ausschus der Staendigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 211 Tagung, Brüssel, 17-18 April 1962, 7.

⁷⁶ The issue of Yugoslav exports to Italy was highly important for the government, as Italy became Yugoslavia’s largest export market in 1961. At the same time, Italy was third largest importer to Yugoslavia after West Germany and the US. AJ KPR, 837, I-3-a/44-19, Informacija o ekonomskim odnosima sa Italijom, 15 September 1962, 1.

⁷⁷ AJ KPR, 837, I-3-a/44-19, Rezultati pregovora između Delegacije FNRJ, koju je predvodio Predsednik Komiteta za spoljnu trgovinu Sergej Kraigher i Delegacije Italije, koju je predvodio Ministar spoljne trgovine Italije Luigi Preti, 10 May 1962, 3-4.

in trade with the EEC.⁷⁸ In the following period, Yugoslav–Italian contacts intensified. In mid-June, Ranković paid an official visit to Rome, in which he discussed bilateral relations with Preti and the Italian Prime Minister, Amintore Fanfani.⁷⁹ At the beginning of July, Yugoslav and Italian experts discussed the ways to protect Yugoslav trade with Italy from the EEC discriminatory measures.⁸⁰ Finally, during the visit of the president of the Committee for Foreign Trade Sergej Kraigher to Rome in August, Italy offered two lines of credits worth more than USD70 million to help Yugoslavia to resolve balance of payments difficulties.⁸¹

At the multilateral level, Yugoslavia decided to much more actively condemn the discriminatory measures of the EEC within the OECD, GATT, and ECE. Already in May, in the course of the first assessment of the Yugoslav economic situation at the OECD Economic and Development Review Committee (EDRC), the so-called *confrontation technique*, the Yugoslav delegates raised the issue of the EEC trade discrimination against Yugoslavia.⁸² The following month, on 5 June, the Yugoslav delegation issued a statement to the OECD Trade Committee, despite the opposition from West Germany and France, calling for a removal of barriers to trade between Yugoslavia and the OECD, especially the EEC member states.⁸³ Thus, apart from condemning the trade discrimination of the EEC, the Yugoslav government asked for multilateral liberalization by all OECD countries as by 1962 Yugoslavia had secured the OECD liberalization privileges with only some members.⁸⁴ Beside the initiative to liberalize trade with all OECD member countries, Yugoslav diplomacy decided to accelerate accession negotiations for GATT membership in order to reduce the EEC trade discrimination.⁸⁵

⁷⁸ AJ KPR, 837, I-3-a/44-19, Zabeleška o razgovoru podpredsednika SIV E. Kardelja sa ministrom spoljne trgovine Italije Luidji Pretijem, 25 Aprila 1962, 2-3.

⁷⁹ AJ KPR, 837, I-5-b/44-9, Zabeleška o razgovoru potpredsednika SIV-a druga Aleksandra Rankovića sa italijanskim ministrom spoljne trgovine Luigi Preti na prijemu u Rimu 15 juna 1962 g., 1-3.

⁸⁰ DA MSP RS, PA, f-95, d. 4, 32515, Izveštaj o razgovorima jugoslavenskih i talijanskih stručnjaka o dejstvu mera EEZ na trgovinu između Jugoslavije i Italije, 4-6 July 1962.

⁸¹ AJ KPR, 837, I-3-a/44-19, Informacija o ekonomskim odnosima sa Italijom, 15 September 1962, 2.

⁸² The Yugoslav delegation also harshly criticized the EEC protectionist agricultural policy at the OECD Committee for Agriculture. DA MSP RS, PA, f-101, d. 1, 416016, Konfrontacija u Komitetu za ispitivanje ekonomskih situacija i problema razvoja, 14 May 1962, 3-4; DA MSP RS, PA, f-101, d. 5, 437882, Govor dr. Slavka Komara na zasedanju Komiteta za poljoprivredu OECD na dan 19.11.1962, 4.

⁸³ DA MSP RS, PA, f-101, d. 2, 421087, Izveštaj o učešću naše delegacije na 3. zasedanju Komiteta za trgovinu OECD, Paris, 5-6 June 1962, 1-6.

⁸⁴ The Benelux countries, UK, Sweden and Norway granted Yugoslavia full OECD liberalization. Most countries allowed only partial OECD liberalization, excluding agriculture. France, West Germany, Austria and Denmark refused to acknowledge OECD liberalization privileges for Yugoslavia. DA MSP RS, PA, f-104, d. 3, 442949, Osvrt na ekonomske sporazume FNRJ, 9 April 1962, 1-2.

⁸⁵ DA MSP RS, Strogo pov, 1962, f-II, sign 35, Predlozi i mere koje treba preduzeti u vezi naših odnosa sa EEZ, 23 March 1962, 13.

2.2.2. *Tito and Yugoslav Turn to the Third World and Soviet Bloc*

Simultaneously with these efforts by the Ministry of Foreign Affairs, Tito centred his activities on expanding economic relations with the Soviet Union and Third World countries.⁸⁶ Already in March, Tito began an intensive high-level dialogue on strengthening Yugoslav economic relations with the Soviet Union. The second de-Stalinization process which was launched in October 1961 at the 22nd Party Congress and the Sino–Soviet split opened a new phase in the relations between Belgrade and Moscow. The onset of this Yugoslav–Soviet rapprochement, initiated by the Soviets, paved the way for the expansion of economic cooperation.⁸⁷ It also offered an opportunity for Yugoslavia to address its unfavourable position in relation to the EEC. At the meeting with the Soviet Ambassador Jepišev on 26 March Tito underlined the economic discrimination Yugoslavia was facing in a trade with the Western Europe, by saying that the West “actually intends to create a cartel in Europe, through which it wants to forge its positions in developing countries. They are establishing a new market, through which they will dictate not only the prices but also other much larger issues.”⁸⁸ Tito, therefore, called for improvement of the bilateral relations and asked the Soviet government to review and reconsider the COMECON policy towards Yugoslavia.

In a letter to Tito in early April, Khrushchev supported the expansion of Yugoslav–Soviet economic relations as well as the establishment of official relations between Yugoslavia and the COMECON.⁸⁹ In mid-April, for the first time in six years, a high-level Soviet official, Minister of Foreign Affairs Andrej Gromyko, visited Belgrade. During his visit, Gromyko discussed a whole range of international issues with Tito and Kardelj,

⁸⁶ In a high-profile speech in Split in May 1962, during which Tito for the first time publicly commented on the Yugoslav internal political and economic crisis, he explained the new approach to address the difficult Yugoslav position in the international trade: “You know (...) that a few months ago I was in Egypt and that I held talks regarding the issue of the Common European Market (...). I must tell you that we are in an awkward situation (...). Therefore, we must find a way and take the necessary measures to protect ourselves. We already feel the consequences of the developments in Europe and we have to consider where we are going to sell our products. We must establish relationships and work with countries in Asia, Africa, and even Europe and Latin America, to find a way to eliminate discrimination from the closed markets against the countries who are not included in them. We will have to change many things.” “Treba preduzeti mjere koje će omogućiti normalniji razvoj naše zemlje. Govor u Splitu, 06/05/1962”, *Tito. Govori i članci* (Zagreb: Naprijed, 1965), 17: 216-217.

⁸⁷ Already in 1961 Yugoslavia and Soviet Union signed the Five-Year Trade Agreement (1961-1965) which aimed at an increase in bilateral trade. AJ KPR, I-5-b/99-10, Informacija o stanju i problemima robne razmene sa SSSR-om, kao i sovjetskih isporuka kompletne opreme odnosno jugoslavenskih isporuka brodova, 21 October 1961, 1-9.

⁸⁸ AJ KPR, 837, I-3-a/SSSR, Zabeleška o razgovoru druga Predsednika, sa ambasadorom SSSR-a Jepiševim, 26. marta 1962; quoted in Bogetić, *Jugoslavensko-američki odnosi 1961-1971*, 67-68.

⁸⁹ Bogetić, *Jugoslavensko-američki odnosi 1961-1971*, 68.

including the Yugoslav position towards the EEC.⁹⁰ Another significant step in strengthening bilateral relations was made during the visit of Chairman of the Presidium of the Supreme Soviet, Leonid Brezhnev, from 24 September to 4 October. As part of the rapidly warming ties, Tito and Brezhnev agreed to intensify economic and military cooperation, although behind the scenes fundamental political and ideological differences remained.⁹¹ Regardless of these opposing views, the two leaders affirmed the Belgrade Declaration of 1955 in the joint communique which also stated:

the removal of artificially created barriers (embargo, etc.) in international economic relations and in world trade as well as discrimination in this area, as in the case of the Common Market, would be a significant step towards the establishment of equitable economic cooperation which is an important prerequisite for the strengthening of peace and international cooperation as a whole.⁹²

Another major Yugoslav policy initiative in the international arena which had a pronounced political and economic dimension was directed towards Third World countries. Even before the Yugoslav government formulated a coherent strategy towards the EEC, Tito seized the moment at the Belgrade Conference to promote the idea of convening an international economic conference to discuss the most pressing issues facing the world economy and problems of underdeveloped countries. In Tito's view, development, modernization, and cooperation in the area of trade and international economic relations were instrumental in the struggle of developing nations for their independence. For that reason, Tito advocated a wide-ranging cooperation of the non-aligned and developing countries on the economic issues under the auspices of the United Nations.⁹³ Yugoslav policy corresponded to the interests and policies of other developing nations. The Third World countries were vitally interested in changing the rules of international trade and acquiring a greater influence in the Bretton Wood institutions. For these countries, it was paramount to improve the terms of exchange of

⁹⁰ AJ KPR, 837, I-3-a/101-33, Zabeleška o razgovoru predsednika J.B. Tita sa Andrej A. Gromikom, ministrom inostranih poslova SSSR-a, 17.04.1962, 1-5; KPR, I-3-a/101-33, Zabeleška o razgovoru potpredsednika SIV E. Kardelja sa ministrom spoljnih poslova SSSR Andrejom Gromikom, 19 April 1962, 6.

⁹¹ Tito and Brezhnev intensively discussed the causes of the second rift between Yugoslavia and the Soviet Union as well as Yugoslavia's non-alignment policy. AJ KPR, 837, I-3-a/101-40, Zabeleška o jugoslavensko-sovjetskim razgovorima vođenim prilikom posete predsednika Prezidijuma Vrhovnog sovjeta SSSR Leonida Iljičeva Brežnjeva Jugoslaviji, 29 September 1962, 19-43.

⁹² AJ KPR, 837, I-3-a/101-40, Zajedničko saopštenje o zvaničnoj posjeti predsednika Prezidijuma Vrhovnog Sovjeta SSSR-a L.I. Brežnjeva FNRJ, 8-9.

⁹³ „Potrebno je koncentrisati sve miroljubive napore i snage svijeta da bi se energičnijim akcijama doprinijelo pobjedi mira. Govor u generalnoj debati na Beogradskoj konferenciji“, *Tito. Govori i članci* (Zagreb: Naprijed, 1965), 17: 78-79.

commodities and manufactured goods in favour of the former in order to obtain financial means to support industrialization and modernization efforts. Indeed, these changes were considered essential in their struggle against Western economic neo-colonialism.⁹⁴

Yugoslavia had the same interests in addressing issues of international trade and financing as other developing countries. In the 1960s the share of primary commodities in total exports was still considerable, although the raw material exports were becoming increasingly less relevant as industrialization and transformation of the economy was changing the structure of Yugoslav exports. More importantly, the emerging Non-Aligned Movement offered to Yugoslav policy-makers a perfect opportunity to address the regionalization of the European trade and the emergence of the EEC. Already at the Belgrade Conference Tito criticized the EEC, by saying:

One of the greatest obstacles to economic cohesion and cooperation is the creation of the Common Market in Western Europe, and most recently the creation of the Organization for Economic Cooperation and Development (OECD), which some people are beginning to label as the Atlantic Economic Community, then the creation of COMECON, the organization of Eastern European countries, etc. (...) In the longer term, this situation could even get worse, and the harmful impact on the economic development of the non-aligned countries could be greater. Because of this, and for many other reasons, I believe that economic cooperation among developing countries should be organized in a comprehensive way, in order to include all non-aligned countries and all other underdeveloped countries that are ready for such cooperation.⁹⁵

The struggle against discriminatory regional blocs, especially the EEC, was a central part of Tito's initiative. The Yugoslav leader considered that the non-aligned countries could more easily face the difficulties and discriminatory policies of the developed Western nations if they acted together against such tendencies.⁹⁶ Tito pushed for a follow-up meeting of the developing nations with two aims; first, to expand and strengthen economic cooperation

⁹⁴ Giuliano Garavini, *After Empires. European Integration, Decolonization and the Challenge from the Global South 1957-1986* (Oxford: Oxford University Press, 2012), 8, 27, 31.

⁹⁵ "Potrebno je koncentrisati sve miroljubive napore i snage svijeta da bi se energičnijim akcijama doprinijelo pobjedi mira. Govor u generalnoj debati na Beogradskoj konferenciji", *Tito. Govori i članci* (Zagreb: Naprijed, 1965), 17: 79-80.

⁹⁶ AJ KPR, 837, I-2/14, UAR, Trojni sastanak u Kairu (Tito, Naser, Nehru), 16-23.11.1961. Zapisnik o razgovorima između Predsednika Tita i Predsednika Nasera, koji su vođeni 18.11.1961. u 10 časova pre podne, 8.

among the non-aligned countries on the one hand, and between them and all other countries, particularly those affected by economic groupings, on the other;⁹⁷ and second, as he explained to Sudan's President Abud at a meeting in February 1962, to force these economic blocs to conduct trade in a more reasonable manner and to accept measures that would take into account the economic interests of other countries as well.⁹⁸

Table 10: Composition of Yugoslav primary and industrial exports and imports, 1947-1968 (in percentages)

	EXPORTS		IMPORTS	
	Primary Exports	Industry	Primary Imports	Industry
1947/51	24,6	75,4	4,5	95,5
1952/55	28,5	71,5	22,6	77,4
1956/60	23,3	76,7	16,1	83,9
1961/65	18,9	81,1	15,2	84,8
1966/68	16,9	83,1	10,8	89,2

Source: Computed from Vladimir Pertot, *Ekonomika međunarodne razmjene Jugoslavije* (Zagreb: Novinsko-izdavački, štamparski i birotehnički zavod, 1970), Knjiga I, 64-67.

The countries participating at the Belgrade conference endorsed Tito's initiative and in the final document invited "all the countries in the course of development to co-operate effectively in the economic and commercial field as to face the policies of pressure in the economic sphere, as well as the harmful results which may be created by the economic blocs of the industrial countries."⁹⁹ The Conference further invited the concerned countries to consider convening an international conference to discuss their common problems and to reach an agreement on the policies to repel damages which may hinder their development, as

⁹⁷ AJ KPR, 837, I-2/15, UAR i Sudan, 04-18.02.1962. Joint Communique, 3.

⁹⁸ AJ KPR, 837, I-2/15, UAR i Sudan, 04-18.02.1962. Zabeleška o razgovorima druga Tita sa Predsednikom Sudana Ibrahimom Abudom, 16 februara 1962, 1-2.

⁹⁹ 1st Summit Conference of Heads of State or Government of the Non-Aligned Movement – Final Document, Belgrade, 6 September 1961, 13-14.

http://cns.miis.edu/nam/documents/Official_Document/1st_Summit_FD_Belgrade_Declaration_1961.pdf
[accessed 23 Aug 2015]

well as to discuss and agree upon the most efficient measures to ensure the realization of their economic and social development.¹⁰⁰

The economic aspects of the initiative had to be crystallized in the aftermath of the Belgrade Conference. Tito, Nasser and Nehru played the crucial role in setting up the Cairo Conference agenda.¹⁰¹ However, there were considerable differences among them regarding the scope and aim of the conference. At the tripartite meeting in Cairo in November 1961, serious arguments broke out over the direction of the Conference. Tito advocated a high-level conference that would provide an opportunity for heads of states or ministers of the economy to share their views on expansion of their trade relations. Furthermore, Yugoslav leader wanted to open the issue of common activities of non-aligned countries in the international organizations with the aim of promoting their economic and trade interests. Nasser, on the other hand, was doubtful about the substantial impact of such a conference but remained amenable to Tito's position. The most serious reservations to Yugoslav initiative came from Nehru, who insisted on bilateral cooperation between non-aligned countries as the best way to pursue their interests.¹⁰² As Robert Rakove has remarked, Nehru was concerned about the tone of non-aligned meetings but decided to take part in the Conference in order to maintain India's influence in the Non-Aligned Movement.¹⁰³ By May 1962 the harsh Yugoslav criticism of the EEC policies had also softened due to negative reactions of the Western powers to the Belgrade Conference and the reassessment of the Yugoslav strategy towards the EEC. As a result, the differences among India, Egypt and Yugoslavia were reduced, and they decided to sponsor the conference together with eight Asian and African countries.¹⁰⁴

The Cairo Conference on the Problems of Economic Development, which took place from 9 to 18 July 1962, discussed a wide range of issues regarding the development of the underdeveloped countries, including the cooperation between the developing countries,

¹⁰⁰ Ibid, 14.

¹⁰¹ Contrary to Garavini argument about the key role of Ghana leader Nkrumah in setting up the conference, documents from the Yugoslav archives suggests that Tito, Nasser and Nehru had a crucial role in organizing the Cairo Conference. Rakove in his study on the American response to NAM based on the US documents reached the same conclusion regarding the prime backer of the conference. Robert Rakove, *Kennedy, Johnson and the Nonaligned World* (Cambridge: Cambridge University Press, 2013); Garavini, *After Empires*, 15.

¹⁰² AJ KPR, 837, I-2/14, UAR, Trojni sastanak u Kairu (Tito, Naser, Nehru), 16-23.11.1961. Zapisnik o razgovorima između Predsednika Tita i Predsednika Nasera, koji su vođeni 18.11.1961. u 10 časova pre podne, 6-10; KPR, I-2/14, UAR, Trojni sastanak u Kairu (Tito, Naser, Nehru), 16-23.11.1961. Zapisnik o razgovorima Predsednika Tita, Predsednika Nasera i indijskog premijera Nehrua, održanim 19.11.1961. pre podne, 7, 10-11, 14-17.

¹⁰³ Rakove, *Kennedy, Johnson and the Nonaligned World*, 87.

¹⁰⁴ Ceylon, Ethiopia, Ghana, Guinea, Indonesia, Libya, Mali and Sudan. Vladimir Dragomanović, "Konferencija o problemima ekonomskog razvoja (Kairo, 9-18. juli 1962)", *Međunarodni problemi* 14, no. 2-3 (1962): 104.

problems of international trade, primary commodity trade, development aid, etc. The conference was much more balanced in attacking the economic policies of the West than the preceding Belgrade Conference. The final document contained some criticism directed at the EEC, but these objections were not too severe.¹⁰⁵ Most participants dismissed Yugoslav proposals for establishing an institution to handle problems concerning their economic cooperation which would at the same time harmonize their activities within the UN, and to set up a special committee which would coordinate their policies towards the industrial countries and European economic integration.¹⁰⁶ Despite these failures, the outcome of the conference was satisfactory for the Yugoslav policy-makers as the Cairo Declaration called for close and constant contacts among the participant countries regarding these issues as well as for convening of an international conference on trade and development under the aegis of the UN.¹⁰⁷

The Cairo Conference marked the culmination of many months of the Yugoslav activity among the Third World countries directed against the EEC. Indeed, until mid-1962 Yugoslavia was one of the fiercest critics of the EEC discriminatory trade policies in international politics. Belgrade's antagonism towards the EEC, however, brought no appreciable changes in Yugoslav economic position vis-à-vis the Community. In international forums, such as the OECD Trade Committee, Yugoslav actions merely came down to emphasizing the discrimination that Yugoslavia was facing in a trade with the EEC. At the same time, Yugoslavia's impending association with GATT, which was finalized on 13 November 1962 when Yugoslavia was provisionally admitted to GATT, could not substantially reduce the EEC trade discrimination as the liberalization was almost solely confined to industrial products, while agricultural products for which Yugoslavia was primarily interested were excluded from trade liberalization.¹⁰⁸ The Yugoslav approach towards the neutral European countries had also resulted in nothing but a partial success. First, only Austria, Finland, Norway and Sweden agreed to launch bilateral consultations on the repercussions of the EEC policies on their trade. While Belgrade ultimately hoped to

¹⁰⁵ "Kairska deklaracija zemalja u razvoju", *Međunarodni problemi* 14, no. 2-3 (1962): 134-135.

¹⁰⁶ See more about the conference in: Rakove, *Kennedy, Johnson and the Nonaligned World*, 86-88; Dragomanović, "Konferencija o problemima ekonomskog razvoja," 103-117; Vladimir Popović, "Ekonomski problem zemalja u razvoju (Govor šefa delegacije FNRJ na Kairskoj konferenciji)", *Međunarodni problemi* 14, no. 2-3 (1962): 87-101.

¹⁰⁷ "Kairska deklaracija zemalja u razvoju", 137.

¹⁰⁸ DA MPS RS, PA, f-104, d. 3, 443239, Teze za izlaganje o ZET-u, 13 June 1962, 2; AJ KPR, III-B-2-b, br. kut. 75, Referat u vezi potpisivanja Deklaracije o privremenom pristupanju FNRJ GATT-u u Ženevi, 13 November 1962, 1-2.

discuss some joint action with these countries that would protect their economic interests, the discussions were restricted only to exchange of views regarding their problems in the trade with the Community.¹⁰⁹ At the same time, the bilateral discussions with Italy did not alleviate Yugoslav concerns over the effects of the EEC discriminatory measures on their trade. On the contrary, these consultations confirmed that Yugoslav fears were well-founded.¹¹⁰ And although Gromyko's visit signaled a major improvement in the Yugoslav–Soviet relations, by mid-1962 only limited progress had been achieved in economic relations with the Soviet Union.¹¹¹ Finally, the prospect of an economic association of the non-aligned countries based on a broad, but flexible basis was unrealistic. A politically and culturally heterogeneous group of economically-weak developing countries from different world regions, with great disparities in the level of economic development and various problems that they faced in both internal economic policies and foreign trade, the non-aligned countries could not make any significant achievement in broader cooperation between themselves. Furthermore, Yugoslavia, as the only European country among the non-aligned countries, was significantly more integrated into the Western European economic system and, therefore, was confronted with more severe discrimination in trading with the EEC than other non-aligned countries. For that reason, it was far more crucial for Yugoslavia to find a solution for its difficulties in trading with the EEC through direct contacts with the Community.

Thus, the strategy designed by the Yugoslav authorities failed to address the underlying problems of trade caused by the creation of the EEC until mid-1962. Belgrade's actions, even though they increased the visibility of the Yugoslav problem with the EEC, also caused considerable disaffection in the Western capitals. Washington policy-makers were considerably concerned about the effects of Yugoslav policies on Western relations with the non-aligned countries.¹¹² The Commission and the EEC member states were also critical of

¹⁰⁹ DA MPS RS, PA, f-104, d. 3, 443038, Zabeleška o konsultacijama sa neutralnim i prijateljskim evropskim zemljama u vezi Zajedničkog tržišta, 25. april 1962, 3-5; PA, f-101, d. 1, 416709, Telegram Stalne delegacije FNRJ pri OECD-u DSIP-u, 19 May 1962; PA, f-104, d. 3, 443229, Beležka o konsultaciji sa Švedskom u vezi Zajedničkog tržišta, 31 May 1962, 1-4; PA, f-101, d. 6, 443758, Analiza stanja kontakata sa Evropskom ekonomskom zajednicom, 22 October 1962, 7-8.

¹¹⁰ DA MSP RS, PA, f-95, d. 4, 32515, Izvještaj o razgovorima jugoslavenskih i talijanskih stručnjaka o dejstvu mera EEZ na trgovinu između Jugoslavije i Italije, 4-6 July 1962, 4-6.

¹¹¹ At the beginning of July, Todorović signed a barter agreement with the Soviet First Deputy Premier Anastas Mikoyan. The Protocol anticipated significant increase in volume of trade in the period 1963–1965. AJ KPR, 837, I-3-a/101-40, Monografija o Sovjetskom savezu, 8-10.

¹¹² Rakove, *Kennedy, Johnson and the Nonaligned World*, 87; DDF, 1962, Tome I, doc. 186, Réunion franco-américane, Couve de Murville – Dean Rusk, 21 juin 1962, 642-643.

the Yugoslav actions and the possible outcomes of the Cairo Conference.¹¹³ And while the Yugoslav policy encountered criticism from the West, it did not secure any benefit in a trade with the EEC.

The Yugoslav Ministry of Foreign Affairs therefore strongly argued for establishing direct contacts with the EEC. Already in January 1962, the Ministry underlined that Yugoslavia was faced with two alternative choices – either to ignore the EEC and reorient its foreign trade away from Western Europe or to modify its negative position and negotiate some kind of flexible relationship with the Community.¹¹⁴ Two months later, during the debate within government circles on the strategy towards the EEC, the Ministry emphasized the usefulness of direct approach to the European Commission.¹¹⁵ In April the FEC Coordinating Committee gave authority to the Ministry to examine if technical exploratory talks about commercial relations with the EEC could be initiated with the Commission. The definite resolution to implement this decision was made on 21 July.¹¹⁶

¹¹³ HAEU, CM/1962/1077, Note `a l'attention de Monsieur le Pr sident du Comit  des Repr sentants Permanents, Bruxelles, le 6 juin 1962, 1-2; CM/1962/1077, Extrait du Compte Rendu Sommaire de la Reunion Restreinte, tenue a l'occasion de la 217`eme Reunion du Comit  des Repr sentants Permanents, a Bruxelles, les 7-8 juin 1962; CM/1962/1077, Extrait du Compte Rendu Sommaire de la Reunion Restreinte, tenue a l'occasion de la 220`eme Reunion du Comit  des Repr sentants Permanents, a Bruxelles, les 26, 27 et 28 juin 1962; CM/1962/1077, Extrait du Compte Rendu Sommaire de la Reunion Restreinte, tenue a l'occasion de la 224`eme Reunion du Comit  des Repr sentants Permanents, a Bruxelles, les 25 et 26 juillet 1962.

¹¹⁴ DA MPS RS, PA, f-104, d. 2, 442602, Odnosi Jugoslavije sa Evropskom ekonomskom zajednicom, 22 January 1962, 13.

¹¹⁵ DA MPS RS, f-104, d. 2, 442810, Sadr aj diskusije na kolegijumu DSIP-a na dan 10.03.1962. koji se dostavlja kao dopuna materijala o reperkusijama stvaranja ZET-a na našu ekonomsku situaciju i odnose sa inostranstvom, 3-4; PA, f-104, d. 3, 442825, Stenografske beleške za ekonomske odnose sa inostranstvom SIV-a, odr ane 12. marta 1962, 2/4.

¹¹⁶ DA MPS RS, PA, f-101, d. 1, 416716, Naši odnosi sa Evropskom ekonomskom zajednicom (EEZ), 13 April 1962, 9-10; PA, f-101, d. 6, 443758, Analiza stanja kontakata sa Evropskom ekonomskom zajednicom, 22 October 1962, 7.

2.3. The First Yugoslav Approach to the EEC

The reasons behind the decision to ask for discussion on commercial matters were to acquaint Commission with the discriminatory effects of the EEC policies on Yugoslav exports and to determine future policies depending on the Community response. Ideally, officials in the Ministry hoped that they would open negotiation process for a long-term solution to the rising trade barriers of the EEC member states. The failure of these discussions would at the same time indicate a reluctance of the EEC to accommodate concerns by third countries regarding these discriminatory measures. Ultimately, the Yugoslav authorities aimed at securing a deal on broad market access for several major agricultural and industrial export products, including beef, cattle, corn, eggs, pigs, poultry, wine, fresh fruits and vegetables, tobacco, textile, furniture, and products of plaiting materials.¹¹⁷

The pursuit of these objectives was based on Yugoslavia's geopolitical significance for the Western alliance, and in Western diplomatic circles it was suggested that such expectations were reasonable. In fact, by mid-1962 several Western diplomats and Commission functionaries suggested to Yugoslav officials that Yugoslavia should find a solution to its problems in direct contacts with the EEC.¹¹⁸ Most prominently, in March 1962 Emile Noël, Executive Secretary of the Commission, unofficially expressed the Commission's readiness to discuss bilateral trading relations with the Yugoslav experts. In conversation with the Yugoslav diplomats, Noël also indicated that Yugoslavia could receive better treatment from the Community than other Eastern European countries because of the strong US backing.¹¹⁹ Still, the Ministry was well aware of the weakness of the Yugoslav position. The main obstacles for the Yugoslav initiative were the severed diplomatic relations with West Germany, sharp Yugoslav criticism of the EEC policies, and the absence of official diplomatic relations with the Community. Therefore, the Ministry decided to lobby the Commission, the US, and EEC member states, apart from West Germany, to gain support for the Yugoslav initiative.¹²⁰

¹¹⁷ DA MPS RS, PA, f-103, d. 7, 433876, Predlog za izlaganje ekonomskih problema Jugoslavije u kontaktima sa Evropskom ekonomskom zajednicom, 10 October 1962, 4-9.

¹¹⁸ DA MPS RS, PA, f-103, d. 2, 415941, Zabeleška o razgovoru između V. Mesarića, savetnika ambasade u Brislu i Faniel-a, direktora regionalnog odseka komisije EEZ, na dan 18 aprila 1962; PA, f-101, d. 6, 443758, Analiza stanja kontakata sa Evropskom ekonomskom zajednicom, 22 October 1962, 8.

¹¹⁹ DA MPS RS, PA, f-102, d. 4, 47241, Telegram Ambasade FNRJ iz Brisela, 2 March 1962, 2.

¹²⁰ DA MPS RS, PA, f-103, d. 6, 429520, Predlog za dalje inicijative kod EEZ, 10 September 1962, 1-2; PA, f-101, d. 6, 443758, Analiza stanja kontakata sa Evropskom ekonomskom zajednicom, 22 October 1962, 7-8.

First and foremost, Yugoslav diplomats in Western capitals were instructed to straighten out the Yugoslav criticism of the Community by disallowing the claims that Yugoslavia played a pivotal role at the Cairo Conference in condemning the Common Market.¹²¹ Not surprisingly, Western counterparts remained unconvinced. An even greater inconvenience to the Belgrade authorities, publicly at least, was the breaking of news of the secret Yugoslav initiative towards the EEC. Initially, the Ministry intended to probe discreetly, in an informal fashion, how the Commission and member states would respond to Yugoslavia's approaching the EEC. But following Preti's visit to Yugoslavia in mid-September, during which he had discussed Yugoslav-EEC relations with Tito and Sergej Kraigher, the international media published news about Belgrade's intention to establish contacts with the Commission.¹²² The Yugoslav authorities suspected Preti of having leaked this information to the Italian newspapers, even though Kraigher himself had shared this news with Italian news agency (ANSA) correspondent.¹²³

The main concern for the Ministry was how to explain U-turn in the Yugoslav policy towards the EEC to the Third World partner countries in order to avoid damage to the country's international position. Apart from a statement issued by Drago Kunc, Yugoslav Foreign Secretariat spokesman, on 21 September 1962, in the following period the Yugoslav embassies in the non-aligned countries had to explain why Yugoslavia decided to approach the EEC. The central message was that the Yugoslav government had not alter its strategic policy, although it believed that the non-aligned countries should "open fissures in the system of effective discrimination in regard to the problems that mostly afflict the particular country through direct arrangements of a practical nature with integration groups, of course, in a way which would not be at the expense of other countries that are in a similar position."¹²⁴

Notwithstanding these predicaments, the timing of the Yugoslav initiative towards the EEC seemed right. The development of bilateral relations with France and Belgium especially afforded ample opportunity for a Yugoslav diplomatic initiative. After the signing of the Evian Accords in March 1962 between France and the GPRA that ended the Algerian War, relations between France and Yugoslavia turned a corner and by August diplomatic

¹²¹ DA MPS RS, PA, f-104, d. 3, 443605, Zabeleška o našim inicijativama u vezi sa EEZ-om, 22 September 1962, 2-3.

¹²² E.g. „Tito Anxieties on Common Market“, *The Times*, no. 55501, Sep 20, 1962, 11.

¹²³ DA MPS RS, PA, f-104, d. 3, 443605, Zabeleška o našim inicijativama u vezi sa EEZ, 22 September 1962, 1-3.

¹²⁴ DA MPS RS, PA, f-103, d. 8, 435987, Informacija našim predstavništvima u zemljama Kairske konferencije, 1 November 1962.

relations were restored.¹²⁵ In the same manner, as the Belgium government in 1962 gradually withdraw its support for Moise Tshombe, leader of the Congo province of Katanga, which in 1960 had declared independence with Belgian support, relations between Belgium and Yugoslavia steadily improved.¹²⁶ Consequently, both the French and Belgian governments decided to endorse the Yugoslav actions.¹²⁷ The Dutch government also gave support to the Yugoslav initiative, while the Italian government reaffirmed its strong commitment to Belgrade.¹²⁸ Finally, after initial confusion regarding the Yugoslav initiative, at the beginning of October the Commission notified the Belgrade government of its positive view to open technical exploratory talks.¹²⁹

Particularly important for relations with the EEC was the US policy towards Yugoslavia. Although the Yugoslav–US relationship was at that moment going through a difficult phase, the Kennedy Administration firmly supported Belgrade in its efforts to reduce the discriminatory effects of the EEC on its trade. Washington was gravely concerned about the impact of the Western European integration on Yugoslav economic relations with the bloc. The US policy was based on the idea of drawing the country closer to the West by giving economic assistance and actively supporting cooperation in other fields. As David Klein of the National Security Council Staff emphasised in a letter to the President’s Special Assistant for National Security Affairs, McGeorge Bundy, in April 1962, “our policy has not

¹²⁵ At the first meeting with the French Ambassador Jean Andre Binoche on 13 August at Brioni, Tito raised the issue of Yugoslav relations with the EEC, and alluded that the government will make direct contacts with the Commission. DDF, 1962, Tome II, doc. 48, M. Bionche, Ambassadeur de France á Belgrade, á M. Couve de Murville, Ministre des Affaires Étrangères, Belgrade, 14 aout 1962, 135-137.

¹²⁶ AJ KPR, 837, I-3-a/10-15, Belgija, Octobar 1964, 32.

¹²⁷ DA MPS RS, PA, f-103, d. 6, 430822, Telegram Ambasade FNRJ iz Brisela, 21 September 1962; PA, f-103, d. 7, 431791, Telegram DSIP-a Ambasadi u Briselu, 3 October 1962.

¹²⁸ DA MPS RS, PA, f-103, d. 6, 431441, Telegram Ambasade FNRJ iz Rima, 27 September 1962; PA, f-103, d. 7, 431605, Telegram Ambasade FNRJ iz Haga, 27 September 1962.

¹²⁹ The Yugoslav Embassy informally approached Noël on 12 September asking for Commission view of the possible Yugoslav approach to the Community. Although Noël reacted positively to the initiative, he replied that he would notify the Yugoslav Embassy about the Commission position after consultations with Hallstein, who was at that moment away from Brussels. As the Yugoslav authorities decided to wait for positive assurances from the Commission, the official request for exploratory talks was postponed. In the meantime, Yugoslav diplomats approached EEC member countries. As other officials in the Commission were not aware of the Yugoslav contacts with Noël, when the member states raised the issue of Yugoslav initiative, it appeared that Yugoslavia was ignoring the Commission. Then, when the confusion was resolved, it seemed as the Commission delved into this matter without notifying the member states. In the end, the whole affair was of no importance, except that Noël, as he disclosed to Yugoslav diplomats in 1966, was labelled a pro-Yugoslav man in the Commission. DA MPS RS, PA, f-103, d. 7, 431978, Zabeleška o razgovoru Zorica sa Noel Emilom, izvršnim sekretarom EEK, 12 September 1962; PA, f-103, d. 7, 432894, Telegram Ambasade FNRJ iz Brisela, 8 October 1962; PA, f-103, d. 9, 43672, Zabeleška o razgovoru sa Dr. Bolasco, savetnikom u Komisiji pri EZT; PA, f-103, d. 9, 436533, Odnosi sa EEZ, 8 November 1962, 1-2; PA, f-156, d. 5, 441926, Zabeleška o razgovoru sa izvršnim sekretarom Komisije EEZ, Emile Noelom, održanom 3. novembra 1966.

been directed at converting Yugoslav political thinking, but rather in keeping it tied, to the extent possible, to the West and thereby limiting its dependence on the Soviet Bloc.”¹³⁰

Obviously, the US approached the situation in accordance with the delicate Yugoslav non-aligned position and its strategic importance for the West. In other words, the US supported some provisory arrangement for Yugoslavia that would preserve and even expand Yugoslav trade with Western Europe. The Kennedy Administration wanted to ensure Yugoslavia’s future economic and financial dependence on the West, fearing that Belgrade might turn to the Soviets if the West failed to find an accomodation.¹³¹ For this reason, the Kennedy Administration supported Yugoslav association with the OEEC and GATT. It also advocated a more forthcoming attitude by the EEC in dealing with Yugoslavia. Finally, the Administration believed that the US negotiations with the EEC regarding a general reduction of external tariffs would also alleviate Yugoslavia’s position vis-à-vis the Common Market.¹³²

The first high-level meeting at which Yugoslav and the US officials discussed the Yugoslav–EEC relationship took place during Popović’s visit to Washington in late May. The troubled Yugoslav relations with the US and growing friendship between Yugoslavia and the Soviet Union were the focal points of discussions between Popović and President Kennedy. Popović reassured Kennedy that “this did not mean Yugoslavia was becoming an ally of the Soviets and he saw no reason for putting a question this way.”¹³³ Besides explaining the new phase in the Yugoslav–Soviet relationship, Popović used this visit to highlight the problems the country was experiencing in a trade with the EEC at the meeting with George Ball, the Under Secretary of State for Economic and Agricultural Affairs. During the meeting, Popović asked for US assistance regarding the West German position towards Yugoslavia in trading matters.¹³⁴ Because of the supportive US policy, in September Yugoslav diplomats turned to Washington for support hoping for greater receptivity of the

¹³⁰ FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Memorandum From David Klein of the National Security Council Staff to the President’s Special Assistant for National Security Affairs (Bundy), Washington, April 17, 1962, 261.

¹³¹ FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Memorandum From the Executive Secretary of the Department of State (Battle) to the President’s Special Assistant for National Security Affairs (Bundy), Washington, May 3, 1962, 120-122.

¹³² DA MPS RS, PA, f-104, d. 3, 43155, Zabeleška o razgovoru Koče Popovića sa George W. Ballom, podsekretarom State Departmenta, dana 29. maja 1962, 1-2; PA, f-101, d. 6, 443325, Beleška razgovor dr. P. Tomića DSST sa Owen Jones-om, savetnikom SAD ambasade, 27. juna 1962.

¹³³ FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Memorandum of Conversation: Meeting with Yugoslav State Secretary for Foreign Affairs, Washington, May 29, 1962, 266-270.

¹³⁴ DA MPS RS, PA, f-104, d. 3, 43155, Zabeleška o razgovoru Koče Popovića sa George W. Ballom, podsekretarom State Departmenta, dana 29. maja 1962, 3.

EEC member states to the Belgrade's request to open technical talks. The US government, however, found itself in a contradictory position. By early October efforts to protect Yugoslavia's MFN status proved fruitless, and the Trade Expansion Bill which passed the House of Representatives on June 28, was finally confirmed by the Senate on October 4. The failure of the Administration to prevent the retaliatory trade measures of the US Congress weakened the political weight of US support within Western European circles regarding Yugoslavia's position vis-à-vis the OECD, GATT and the EEC.

On the same day that the US Congress confirmed the Trade Expansion Bill, on 4 October, the question of informal Yugoslav contacts was for the first time opened at the COREPER meeting. As Italy was then holding the presidency of the Council, the Italian delegate included this topic in the agenda. At the meeting, the West German representative did not decisively oppose the opening of the technical exploratory talks but underlined that this was a difficult question for Bonn and asked for additional time, as he needed instructions from the government.¹³⁵ Despite the uncertainty about the German position, the Yugoslav Ministry of Foreign Affairs decided to ask the Commission to start exploratory talks officially. A few weeks later, on 25 October, at the meeting with Rey, the European Commissioner for External Relations, Yugoslav Ambassador to Belgium Prpić formally proposed a direct dialogue between the Commission and the Yugoslav government regarding their trading relations.¹³⁶ The EEC Council of Ministers discussed the Yugoslav request at the meeting of 13 and 14 November. Despite the strong advocacy by Italy as well as the endorsement of France, the Netherlands and the Commission, the Council postponed the decision to a December meeting due to German opposition.¹³⁷ Finally, at the Council meeting of 4 December, the member states reached a compromise solution. The Council agreed in principle to open technical exploratory talks with Yugoslavia, but deferred consideration of the actual decision to launch consultations until spring 1963.¹³⁸

¹³⁵ HAEU, CM/1962/112, Ausschuss der ständigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 299. Tagung, Brüssel, 3-4 Oktober, 1962, 3.

¹³⁶ DA MPS RS, PA, f-104, d. 1, 434736, Telegram Ambassade FNRJ iz Brisela DSIP-u, 25 October 1962.

¹³⁷ HAEU, CM/1962/82, Protokoll über die Sitzung in engeren Rahmen anlässlich der 84. Tagung des Rates der Europäischen Wirtschaftsgemeinschaft, Brüssel, 12-14 November, 1962, 62.

¹³⁸ HAEU, CM/1962/93, Protokoll über die Sitzung in engeren Rahmen anlässlich der 88. Tagung des Rates der Europäischen Wirtschaftsgemeinschaft, Brüssel, 3-5 Dezember, 1962, 71-75.

2.3.1. The Hallstein Doctrine and West Germany opposition to the Yugoslav-EEC trade consultations

The reasons for the West German opposition to the EEC–Yugoslav trading consultations were in the first place linked to the Hallstein doctrine. In this period the Bonn government considered the Hallstein doctrine successful, largely because of West Germany's harsh reaction against Yugoslavia in 1957 which gave credibility to its threat. At the same time, West German policy-makers were wary that other, especially African and Asian, countries could follow Yugoslavia's lead if they failed to continue the antagonistic policy towards Yugoslavia. As the Secretary of State at the Foreign Office, Karl Carstens, pointed out in conversation with Kennan in February 1962, "Bonn must, however, bear in mind the position of third countries and conduct its policy towards Yugoslavia in accordance with the international situation. It should above all leave no doubt as to how it would react when, for example, an African state recognized Pankow."¹³⁹ For this reason, the German government not only aborted diplomatic relations with Yugoslavia but also refused to discuss the question of war compensation put forward by Yugoslavia in mid-1962, and delayed negotiations over a new trade agreement.¹⁴⁰

Besides severing political and economic ties with Yugoslavia, West Germany had undertaken every effort to hinder to the greatest extent possible Yugoslav cooperation with the Western international economic organizations – the GATT, OECD and ultimately the EEC. American efforts to moderate the German policy of isolation of Yugoslavia at the international level were only partially successful, above all in organizations where the US was directly involved (the GATT and OECD).¹⁴¹ The reason for the firm West German position towards establishing official contacts between Yugoslavia and the Community was not only related to the Hallstein doctrine. The Bonn government was also concerned about Yugoslav reaction to a possible separate peace treaty between the Soviet bloc and East

¹³⁹ AAPD, 1962, Band I, dok. 97, Aufzeichnung des Vortragenden Legationsrats I. Klasse Krafft von Dellmensingen, 27 Februar 1962, 485.

¹⁴⁰ AJ KPR, 837, I-5-b/82-4, Informacija o zahtevu Saveznoj Republici Nemačkoj za naknadu žrtvama nacističkih progona, 24 November 1962, 4-6; KPR, I-5-b/82-4, Zabeleška o razgovoru sa g. Müller-Armakom, državnim sekretarom za privredu Savezne Republike Nemačke, u Parisu 28. novembra 1962. godine, 1-4.

¹⁴¹ During the visit of German Foreign Minister Gerhard Schröder to Washington, from October 13 to 19, the US Secretary of State Dean Rusk asked the German government to give a support to Yugoslav efforts. AAPD, 1962, Band III, dok. 394, Bundesminister Schröder, z.Z. Washington, an das Auswärtige Amt, 15 Oktober 1962, 1699; FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Telegram From the Department of State to the Embassy in Yugoslavia, Washington, February 21, 1963, 335-336.

Germany.¹⁴² Even though the Soviet threat of a separate peace treaty with the GDR, which was for the first time put forward in 1959, was abandoned by early 1962, the Bonn government was uncertain of Soviets intentions. As the Western German authorities were seriously considering that Moscow could reopen this issue in the spring of 1963, it would have been an awkward situation for the government if Yugoslavia had joined other socialist countries and signed the separate peace treaty, whereas the Bonn government agreed that the EEC start exploratory talks with the Belgrade government.¹⁴³

While the delicate Yugoslav position between the Western and Eastern blocs did not play a prominent role in the formulation of the West Germany's position towards Belgrade's request for trade consultations with the EEC, other member states were worried about Yugoslavia's increasingly closer relations with the Soviet Union. Following the Brezhnev visit to Belgrade, on 23 October the EEC Council of Ministers discussed Yugoslav–Soviet relations. Italian Minister of Foreign Affairs Attilio Piccioni, who reported about the situation in Yugoslavia, underlined that the Italian government considered that this visit did not point to a major change in Yugoslav foreign policy orientation. Other ministers, especially French Foreign Minister Maurice Couve de Murville, concurred with the Italian assessment.¹⁴⁴ Still, they were worried that a negative reply would discourage the authorities in advancing relations with the Western Europe and weaken the Yugoslav position vis-à-vis the Soviet bloc.¹⁴⁵ In the end, Germany and France played the crucial role in formulating the EEC's response to the Yugoslav initiative. The French government, as it had no considerable political and economic interest in Yugoslavia, decided to follow the lead of Bonn government on this issue. As Couve de Murville made clear in discussion with German Foreign Minister Gerhard Schröder on 16 December:

¹⁴² The issue of the separate peace treaty was again put on the map in early 1961 by Khrushchev. See more in: Helga Haftendorn, *Coming of Age: German Foreign Policy since 1945* (Lanham: Rowman & Littlefield, 2006), 136-137.

¹⁴³ AAPD, 1962, Band III, dok. 472, Legationsrat I. Klasse Bock, Belgrad, an Ministerialdirektor Krapf, 6 Dezember 1962, 2032. Yugoslav diplomatic cables also reported the Bonn government's concerns regarding the Yugoslav position towards the possible separate peace treaty with the GDR. DA MPS RS, PA, f-104, d. 1, 437922, Telegram Ambassade FNRJ iz Brisela DSIP-u, 16 November 1962; PA, f-104, d. 1, 439289, Telegram Ambassade FNRJ iz Brisela DSIP-u, 27 November 1962.

¹⁴⁴ DDF, 1962, Tome II, doc. 118, Le Ministère des Affaires Étrangères, aux Représentants diplomatiques de la France à Bonn, Rome, La Haye, Bruxelles (Ambass.), Bruxelles (Delfra), Luxembourg, Washington, Londres, Paris, 25 Octobre 1962, 327-328; AAPD, 1962, Band III, dok. 414, Runderlass des Ministerialdirektors Jansen, 24. Oktober 1962, 1779-1780.

¹⁴⁵ HAEU, CM/1962/82, Protokoll über die Sitzung in engeren Rahmen anlässlich der 84. Tagung des Rates der Europäischen Wirtschaftsgemeinschaft, Brüssel, 12-14 Novemeber, 1962, 61-62.

If the Federal Government does not want a discussion with Yugoslavia at the moment, France does not see any reason to impose this discussion (...) The Federal Government only need to say to France when a discussion with Yugoslavia would be politically acceptable. I do not see any particular urgency in this matter.¹⁴⁶

Jean Rey conveyed the Council's decision to Ambassador Prpić at the meeting on 12 December. Rey explained to the Ambassador that the Council had agreed that the Commission would carry out formal trade consultations, but due to technical and psychological reasons – as other third countries had already requested the exploratory trade talks with the EEC, there would have been negative repercussions if the Community had given priority to Yugoslavia – the exact date would be determined in the following months. Additionally, Rey asked the Yugoslav government to submit a memorandum to the Commission regarding the trade talks.¹⁴⁷ The Yugoslav reaction to the Council decision was negative. The Ministry rejected the Commission's explanation, claiming that Yugoslavia was politically discriminated against by the Community, as there was no additional Council decision needed regarding the exact date of exploratory talks when other countries requested trade consultations. Also, the Yugoslav side pointed out that the Community had not previously followed such an order when entering into trade consultations with these countries. Beyond doubt, it was evident to Yugoslav diplomats that German opposition was the driving force behind this apparently favourable decision. Therefore, the Ministry decided not to take any further actions regarding its initiative to start exploratory talks with the Community.¹⁴⁸

Apart from the Council's decision, other factors also played a role in the Yugoslav decision not to press for further contacts with the EEC. First, the Yugoslav economy began to recover in the second half of 1962.¹⁴⁹ The economic recovery was based upon the reintroduction of the pre-reform economic system. Tighter government control of the economy was restored in November 1961 at the Third Plenary Session of the CC LCY, and in April 1962 it was further reinforced by the introduction of commissions entrusted to oversee

¹⁴⁶ AAPD, 1962, Band III, dok. 490, Gespräch des Bundesministers Schröder mit dem französischen Außenminister Couve de Murville in Paris, 16 Dezember 1962, 2081.

¹⁴⁷ DA MPS RS, PA, f-104, d. 2, 440580, Telegram Ambassade FNRJ iz Brisela, 12 December 1962, 1-3.

¹⁴⁸ DA MPS RS, PA, f-104, d. 2, 440580, Telegram DSIP-a ambasadama FNRJ u Zapadnoj Europi i SAD-u, 26 December 1962, 2.

¹⁴⁹ Branko Horvat, "Uzroci i karakteristike privrednih kretanja u 1961. i 1962. godini", *Ekonomist* 14, no. 1 (1963): 8.

the income distribution of enterprises.¹⁵⁰ In effect, the reform was practically abandoned until mid-1962. The anti-recession measures and a political mobilization stabilized the economy, while the policy of export expansion and import controls improved the balance of trade.¹⁵¹ As a result, in 1962 exports to the EEC member countries rose by 27%, while imports fell by 22%.¹⁵² The export-oriented measures, which helped to revive the shattered economy, had partly suppressed – and in fact distorted – the adverse impacts of EEC discriminatory policies on the Yugoslav economy. At the same time, the most important Yugoslav export product to the Common Market, beef, was still not subject to the CAP regulations, which were scheduled to be fully introduced in 1969.¹⁵³ Finally, De Gaulle's veto on British membership of the EEC on 14 January 1963 thwarted the emergence of a unified Western European trading bloc and triggered the Community's first major crisis.¹⁵⁴ As the issue of the EEC enlargement was laid aside, the Yugoslav position was more comfortable in the immediate future.

2.3.2. Searching for Alternatives to the Yugoslav-EEC Agreement: Bilateral Trade Agreements, UNCTAD and Kennedy Round

Without the immediate risk of economic isolation from Western Europe, with the German opposition to the Yugoslav–EEC trade consultations, and no clear picture of the short-term economic impact of the Common Market on Yugoslav foreign trade, while at the same time relations with the Soviet Union were getting increasingly warmer, Yugoslav authorities adopted a wait-and-see attitude towards the EEC. Instead of pursuing contacts with the Community, under the new circumstances the Yugoslav foreign policy establishment decided to take advantage of the Western European division over the issue of British membership in

¹⁵⁰ Rusinow, *The Yugoslav experiment*, 120-121.

¹⁵¹ Horvat, *Business Cycles in Yugoslavia*, 182.

¹⁵² On the whole, Yugoslav exports have increased for 21.4%, and imports decreased for 2%. As a result, Yugoslav's trade deficit decreased by 39.22%. AJ KPR, 837, III-B-1-b, br. kut. 70, Spoljnotrgovinska razmena za 11 meseci 1962. godine, 24 December 1962, 1-2; DA MPS RS, PA, f-110, d. 9, 442275, Izvoz u zemlje ZT u 1962. godini, 25 February 1963, 1; AJ KPR, 837, I-3-a/44-31, Specijalni informativni bilten posvećen ekonomskim odnosima između Italije i Jugoslavije, 4-5.

¹⁵³ DA MPS RS, PA, f-109, d. 5, 442300, Podsetnik o problemima EEZ, u vezi odlaska za Brisel ambasadora S. Pavliča, 4 March 1963, 8; PA, f-110, d. 9, 442040, Agrarna politika Evropske ekonomske zajednice, 7 January 1963, 1.

¹⁵⁴ The other five EEC member states tried to persuade the French government to change its position, but despite their efforts the negotiations between Britain and the EEC were suspended indefinitely on 29 January 1963. The governments of the Five were deeply disappointed with the French veto. The crisis had damaged hopes for greater political union in Western Europe, and accentuated the divide between the Gaullist and the supranational vision of Europe. Ludlow, *Dealing with Britain*, 224-230.

order to find a solution to Yugoslav trade problems.¹⁵⁵ In the following period the government pressed for bilateral trade deals with Italy, West Germany, and France. The key objective was to secure liberalization of trade with the OECD and thereby to generate more favourable trading arrangements for Yugoslavia which would reduce the trade deficit with these countries.

In March 1963 Yugoslavia and Italy signed a trade treaty that contributed to a substantial rise in exports to Italy by granting full OECD trade liberalization treatment to Yugoslavia. The Yugoslav government also forwarded an aide-memoire to the Italian government, which underlined the obstacles to trade with Italy resulting from EEC protectionist measures. During the trade negotiations, the Italian government agreed to notify the European Commission about the Yugoslav position on these issues. A year later, in 1964, Italy and Yugoslavia signed a long-term agreement regulating Yugoslav exports of beef to the Italian market.¹⁵⁶ In June 1963, the Yugoslav government opened negotiations about the new trade agreement with West Germany.¹⁵⁷ Although this was the first official contact between two governments after six years, the negotiations did not last long. Already the following month, in July, the talks broke off as the Bonn government was not willing to make any concessions.¹⁵⁸ Still, during the negotiations, the German side agreed to deliver the Yugoslav aide-memoire to the European Commission regarding the EEC discriminatory measures.¹⁵⁹

Finally, from late 1962 the Ministry of Foreign Affairs began to seek a rapprochement with France. Closer relations with France were essential to Yugoslavia not only for economic reasons. Politically, France was seen potentially as a crucial European ally in the case of Western German nuclear armament within the framework of the NATO Multilateral Force

¹⁵⁵ DA MPS RS, PA, f-110, d. 9, 43212, Zaključci u vezi prekida pregovora VB-EEZ, 8 February 1963, 1-3.

¹⁵⁶ DA MPS RS, PA, f-110, d. 9, 442420, Aide Memoire, Rim, 23 March 1963; PA, f-110, d. 10, 443056, Dosadašnji kontakti sa EEZ, 8 August, 1963, 1;

¹⁵⁷ Trade negotiations were initiated by the West German government. In March 1963, French Ambassador Binoche informed the Yugoslav authorities that the Bonn government would be ready to discuss the bilateral trade issues, and to withdraw its objections on the Yugoslav-EEC trade talks. Even before the negotiations started there was deep division within the government regarding the policy towards Yugoslavia. In particular Ludwig Erhard, Minister of Economics, was in favour of trade negotiations, while the Ministry of Foreign Affairs was opposed to the talks. AJ KPR, 837, I-5-b/82-4, Zabeleška o razgovoru sa g. Müller-Armakom, državnim sekretarom za privredu SRN, u Parizu 28. novembra 1962., 3-4; KPR, I-5-b/28-7, Zabeleška večera kod turskog ambasadora Eralp-a 14. marta 1963, 1.

¹⁵⁸ AAPD, 1962, Band II, dok. 268, Aufzeichnung der Legationsrätin Rheker, 2 August 1963, 893-896; AJ KPR, 837, I-5-b/82-4, Prekid ekonomskih pregovora između SRN i SFRJ, 17 July 1963, 1-9.

¹⁵⁹ DA MPS RS, PA, f-110, d. 10, 442930, Aide Memoire, München, 10 July 1963.

(MLF).¹⁶⁰ The Yugoslav policy-makers also viewed France as a possible partner in economic expansion towards non-aligned African countries. The French government, however, showed little interest in developing its relationship with Yugoslavia. De Gaulle's personal dislike of Tito and French annoyance at the Yugoslav policy towards the Algerian War of Independence remained an impassable barrier to the closer friendship between two countries. In regard to economic relations, Yugoslavia had only limited economic significance for France. Furthermore, the French government found that the Franco–Yugoslav economic connections were satisfactory, and saw no need in expanding them due to the strong presence of powerful competitors in the Yugoslav market, primarily West Germany and Italy.¹⁶¹ As a result, France had little incentive to open its doors to Yugoslav exports. The new trade agreement signed between the two countries in November 1962 granted only a partial OECD liberalization to Yugoslavia.¹⁶² Only after the OECD Trade Committee recommended in November 1963 that all member states concede OECD trade liberalization to Yugoslavia, did France in fact acknowledge in January 1964 that it would do so.¹⁶³

The Yugoslav pursuit of liberalization of trade with the OECD only reduced trade barriers to the Common Market, which was insufficient to protect the economy from EEC discrimination.¹⁶⁴ Yugoslav diplomacy, therefore, aimed its attention at the First Session of the United Nations Conference on Trade and Development (UNCTAD) as an international forum in which Yugoslavia could promote its interest in international trade. The convening of UNCTAD was greatly influenced by the Cairo Conference, after which the UN Economic and Social Council adopted a resolution in August 1962 calling for an international conference on trade problems of developing countries. In December 1962 the General Assembly approved the resolution. The conference, which was held in Geneva from 23 March to 16 June 1964, established UNCTAD as a permanent UN body and set the agenda for future work of the Conference. It also led to the establishment of the Group of 77 (G77),

¹⁶⁰ MLF was for the first time proposed in December 1960 at the NATO ministerial meeting in Paris by the Eisenhower Administration. The plan was proposed in order to address the growing concern among the Western European countries over the credibility of the US nuclear deterrence in Europe. While in 1963–64 it seemed the MLF might come into existence, by 1966 the project was abandoned. Stephen Twigge and Len Scott, *Planning Armageddon: Britain, the United States and the Command of Western Nuclear Forces 1945-1964* (Amsterdam: Harwood Academic Publishers, 2000), 184-192.

¹⁶¹ Todić, "A Traditional Friendship?", 246, 252, 254, 256, 258-259.

¹⁶² AJ KPR, 837, I-5-b/28-7, Referat u vezi Trgovinskog sporazuma FNRJ i Republike Francuske, potpisanog u Beogradu 26. novembra 1962.

¹⁶³ DA MSP RS, PA, 1963, f-109, 438402, Izveštaj o radu Komiteta za trgovinu OECD, 26 November 1963, 5; AJ KPR, 837, I-3-a/27-35, Odnosi SFRJ-Francuska, 13 November 1966, 7-9.

¹⁶⁴ DA MPS RS, PA, f-101, d. 6, 441771, Telegram Stalne delegacije FNRJ pri OECD-u DSIP-u, 18 December 1962, 4.

which issued a joint declaration at the end of the Conference calling for “a new and just world economic order” which would “involve a new international division of labour oriented towards the accelerated industrialization of developing countries.”¹⁶⁵

Along with broader political and economic interest of fostering cooperation with the Third World countries, Yugoslavia used the Geneva Conference to address its problems in trade with the Community.¹⁶⁶ As the Yugoslav economy experienced rapid structural change with a large increase in the share of industry, the government was particularly interested in the idea of tariff preferences for developing countries which was brought up by Raul Prebisch, the first Secretary-General of UNCTAD. The introduction of a system of preferences had to open up developed countries’ markets to the industrial exports of developing countries. This preferential treatment had to ensure the competitive advantage to the weak industries of these countries and thereby support their industrialization and economic development. The Yugoslav government recognized that this proposal would facilitate market access for its industrial exports to the Common Market and increase the country’s export earnings. However, due to strong opposition from the US Administration, differences among the developed countries that supported this proposal but came apart about the exact terms of the preferential treatment granted to the developing countries, as well as the opposing views among the developing countries in regard to the differential treatment of less developed countries, the Conference only adopted in principle the introduction of tariff preferences in the international trade.¹⁶⁷

Despite the failure to reach an agreement on the issue of preferences, the Yugoslav government regarded the conference as a success for a number of reasons. First, the conference established the institutional machinery within the framework of the UN that provided an international forum for developing countries to raise issues of their interest in the international trade. Second, the principles adopted at the Conference endorsed the position of the Yugoslav government in discussions about the EEC discriminatory policies. Third, the perspective of implementing the tariff preferences offered a possible solution for the

¹⁶⁵ Garavini, *After Empires*, 35-43; Joint declaration of the seventy-seven developing countries made at the conclusion of the United Nations Conference on Trade and Development, Geneva, 15 June 1964. <http://www.g77.org/doc/Joint%20Declaration.html> [accessed 10 Dec 2016]

¹⁶⁶ Additional information on the Yugoslav participation at the UNCTAD I see in: Alvin Rubinstein, *Yugoslavia and the Nonaligned World* (Princeton, NJ: Princeton University Press, 1970), 171-179.

¹⁶⁷ AJ SIV, 130, fascikla 345-507, Konferencija OUN o trgovini i razvoju. Problemi i zaključci, 18 Septembar 1964, 8-9, 22-24, 73-75; SIV, 130, fascikla 345-507, Izvještaj sa Konferencije UN-a o trgovini i razvoju, 25 July 1964, 8-9, 21-22.

Yugoslav industrial exports to the EEC in the long-term. The conference also assured that Yugoslavia would be included in this scheme, as some developed countries questioned whether Yugoslavia, as one of the most developed economies among the G77, should be treated as a developing country. At the end of the conference, Yugoslavia was included in the Afro-Asia group as an Asian country, being the only European country in the G77. Finally, the conference adopted a set of principles and proposals related to the external financing of economic development, multilateral assistance and other measures that aimed to ease the burden of external debt, in which Yugoslavia, as a highly indebted country, was tremendously interested.¹⁶⁸

However, the main challenge facing Yugoslavia in trade with the EEC, the question of its agricultural exports, was not addressed at the conference, even though a lot of attention was given to the problems of international commodity trade. The main reason was that the structure of agricultural production in Yugoslavia was radically different from African and Asian developing countries.¹⁶⁹ The Yugoslav authorities, therefore, turned to GATT since in 1962 the Kennedy Administration called for a new GATT round with a development-focused agenda and the aim to liberalize trade in both industrial and agricultural sector.¹⁷⁰ The Yugoslav government considered that the “Kennedy Round”, which was officially opened in May 1964, could secure improved access to developed country markets, including various concessions for the agricultural exports to the EEC member states. For these reasons, in January 1965 the FEC decided that Yugoslavia would also take part in the “Kennedy Round”.¹⁷¹

¹⁶⁸ AJ SIV, 130, fascikla 345-507, Konferencija OUN o trgovini i razvoju. Problemi i zaključci, 18 Septembar 1964, 60, 62-70, 78-81; SIV, 130, fascikla 345-507, Izvještaj sa Konferencije UN-a o trgovini i razvoju, 25 July 1964, 2-3, 6, 23-26.

¹⁶⁹ AJ SIV, 130, fascikla 345-507, Konferencija OUN o trgovini i razvoju. Problemi i zaključci, 18 Septembar 1964, 74-75.

¹⁷⁰ Lucia Coppolaro, *The Making of a World Trading Power: The European Economic Community (EEC) in the GATT Kennedy Round Negotiations (1963-67)* (Farnham: Ashgate Publishing Ltd, 2013), 8-9.

¹⁷¹ AJ KPR, 837, III-B-2-b, br. kut. 75, Informacija o učešću Jugoslavije u trgovinskim pregovorima u GATT-u (Kenedi runda), 22 January 1965, 1-4.

2.4. *The Turning Point*

Yugoslavia's problems with the Common Market and deterioration of political and economic relations with the Western powers due to its anti-colonial and anti-Western policies, together with the Soviet–Yugoslav détente, opened the question of the country's international position in the early 1960s. Challenges to Yugoslavia's trade with the EEC were only one of the causes of change in foreign policy. Tito looked favourably at Khrushchev's attempts at liberalization and reform of the Soviet domestic and foreign policies, which were reinforced at the 22nd Party Congress of the CPSU in 1961. Indeed, these policies opened the door to closer cooperation between Yugoslavia and the Soviet Union.¹⁷² At the same time, the escalation of the Soviet dispute with China that followed after the Congress was the decisive moment of change in the Soviet–Yugoslav relations. Acknowledging that the split between China and the Soviet Union had become definitive, Khrushchev wanted to consolidate the Soviet position as the leader of the world's communist movement by improving relations with Yugoslavia. As Friedman argues, in this period the main objective of the Soviet leadership was to foster its geopolitical influence by a restoration of unity in the socialist bloc and expansion of economic and political ties with the developing countries. The attempts of China, a non-Western country, to undermine Soviet influence in the developing world and to become a new centre of anti-imperialist struggle, also worried Soviet policy-makers.¹⁷³ Since the Soviet–Chinese struggle for the Third World was primarily an ideological confrontation, they considered that close Soviet–Yugoslav relations could enhance the Soviet position in Africa and Asia due to Yugoslavia's prestige among non-aligned countries. Finally, by reconciling with Yugoslavia, Moscow wanted to strengthen pro-Soviet elements within the Yugoslav government and society.¹⁷⁴

Yugoslav–Soviet rapprochement, which was accelerated by the Yugoslav economic difficulties in the trade with the West, was finalized with the visit of Tito to the Soviet Union in December 1962. Although serious ideological differences were recognized, both leaders agreed to put them aside and instead paid attention to intensification of military, economic and

¹⁷² AJ KPR, 837, I-3-a/101-40, Monografija o Sovjetskom savezu, 21 September 1962, 1-7, 42-57.

¹⁷³ Jeremy Friedman, "Soviet policy in the developing world and the Chinese challenge in the 1960s", *Cold War History* 2, no. 2 (2010): 247-251, 259-261, 263-264.

¹⁷⁴ The second Soviet–Yugoslav split was in fact to a large measure caused by the Soviet policy of preserving close political and ideological relations with China. The Chinese hard-line ideological policy against Yugoslav Communist Party in the late 1950s left little options to Moscow but to take lead in criticizing the Yugoslav communist regime. Đoko Tripković, "Poboljšanje jugoslavensko-sovjetskih odnosa 1961-1962", *Tokovi istorije*, no. 3-4 (2008): 78-80; Bogetić, "Jugoslavensko-sovjetski odnosi početkom 60-ih godina", 210-213.

political cooperation.¹⁷⁵ Hence, Tito's visit to Moscow marked the beginning of Yugoslavia's greater dependence on the Soviet Union. As political rapprochement opened the doors for closer economic ties, the share of Yugoslav exports to Eastern bloc countries rose from 24.17% in 1962 to 41.96% in 1965. Over the same period, imports from these countries increased from 21.21% to 28.54%, reaching a record high in 1966 (31.21%) (see Table 19). By 1965 the Soviet Union became the most important export market for industry and the largest goods trading partner of Yugoslavia with a total of USD330 million. Trade with the Soviet Union accounted for 13% of total foreign trade. Additionally, the Soviet Union also agreed to finance Yugoslav economic development by providing USD233 million worth of credits.¹⁷⁶

The expansion of trade with the Soviet bloc opened the question of Yugoslavia's relations with the COMECON. Apart from increased trade with the Soviet bloc, Khrushchev's idea to re-launch East European economic integration in late 1962 also played a part in the formulation of the Yugoslav policy. In this period, the Soviet leadership wanted to reform the COMECON by introducing a joint planning body, the Executive Committee. The Committee had to harmonize economic policies of the member countries in order to overcome their autarkic development and to promote cooperation of production and industrial specialization within the bloc. Khrushchev's attempt resulted in failure in 1963 because of the opposition from some member countries, most notably Romania. As a consequence, the Executive Committee came down to nothing more than a coordinating body.¹⁷⁷

Still, at that moment Yugoslav policy-makers were concerned about the impact of such policies on Yugoslavia's trade with the Soviet bloc, especially as they were planning to integrate Yugoslavia more fully into the international socialist division of labour. It was clear to them that without closer cooperation with regard to production and investment plans, industrial specialization and other COMECON activities Yugoslavia would not be able to expand foreign trade with the Soviet bloc substantially. Therefore, they wanted to establish closer ties with the COMECON without becoming a full member. In June 1963, the Yugoslav

¹⁷⁵ Tripković, "Poboljšanje jugoslavensko-sovjetskih odnosa 1961-1962", 108.

¹⁷⁶ AJ KPR, 837, I-3-a/101-84, Ekonomski odnosi SFRJ-SSSR, 8 Septembar 1966, 3.

¹⁷⁷ Lee Kendall Metcalf, *The Council of Mutual Economic Assistance. The Failure of Reform* (Boulder, CO: Columbia University Press, 1998), 52-76; Elena Dragomir, *Cold War Perceptions: Romania's Policy Change towards the Soviet Union, 1960-1964* (Newcastle Upon Tyne: Cambridge Scholars Publishing, 2015), 72-81.

government started technical talks with the Executive Committee, and in November 1964 Yugoslavia joined COMECON as an observer.¹⁷⁸

2.4.1. East or West: Two Views of Yugoslav Foreign Policy Orientation

The rapprochement with the Soviet Union and opposing visions of Yugoslav socialism had sharpened the emerging divisions over foreign policy within the country's political and foreign policy establishment. The conservative, pro-Ranković group in the Party advocated closer cooperation with the Soviet Union. Liberally-minded politicians, on the other hand, championed better relations with the Western European countries and the US, as they considered their support crucial for the development of the Yugoslav economy and stability of the country. The fall of the "little" economic reform, which aimed to bring the Yugoslav economy closer to the West, and ensuing recentralization of the economy weakened the position of the liberal group within the Party. After the meeting of the LCY CC Executive Committee in March 1962, the conservative faction, now supported by Tito, had taken the reins of the Party. Kardelj, the strongest proponent of decentralization and de-bureaucratization of the economic and political system, was marginalized, and survived politically only because of strong backing from the Slovenian Communist leadership. A closer relationship with the Soviets also strengthened the position of the conservative faction, which was now drastically tightening the Party discipline and launching attacks against liberal trends and Western influence in cultural life and Yugoslav society overall. Finally, in June 1963 Ranković was elected to the newly created post of Vice President of Yugoslavia (this position was established by the new Constitution promulgated in April 1963), making him second in the power hierarchy and Tito's heir apparent.¹⁷⁹

The conservative ascendancy within the Party underlined the difference between the Party and Foreign Ministry regarding the country's foreign policy orientation. As a result, two parallel tracks of Yugoslav foreign policy were now being formed; the so-called *sipovska*

¹⁷⁸ AJ KPR, 837, I-3-a/101-40, Monografija o Sovjetskom savezu, 21 September 1962, 11-13; KPR, I-3-a/161-51, Privredna integracija istočnoeuropskih zemalja, 1963, 11-17; AJ SIV, 130, fascikla 656-1087, Saradnja SFRJ i Savjeta za uzajamnu ekonomsku pomoć, 11 November 1965, 11-17.

¹⁷⁹ Jože Pirjevec, *Tito i drugovi* (Zagreb: Mozaik knjiga, 2012), 468-476.

linija of the Ministry of Foreign Affairs, and the Party line which was openly pro-Soviet.¹⁸⁰ In fact, from the early 1950s the Ministry of Foreign Affairs had been acting more independently from the Party than its counterparts in other Eastern European countries. As Rinna Kullaa argues, until 1948 the Ministry played a negligible role in the decision-making process. The decisions were made in Tito's inner party circle, which at that moment included Kardelj and Djilas. Following the Tito–Stalin split, they decided to strengthen the Ministry by appointing Kardelj as foreign minister, in order to counter the Soviet campaign against Yugoslavia. By his political authority, Kardelj provided significant resources to the Ministry to expand the diplomatic network. He also secured the autonomy of the Ministry from the Party. Koča Popović, his successor and the longest serving Yugoslav foreign minister (1953–1965), continued his predecessor's policies and further enhanced the independent position of the Ministry.¹⁸¹

Popović, born to a wealthy Belgrade family and a student of philosophy at the Sorbonne, was a war hero who had fought in the Spanish civil war, and was the commander of the elite First Proletarian Brigade during the Second World War. Popović's heroic status, unique background, and cosmopolitan nature earned him great authority. As such, he was able to undermine the position of UDB-a in the Ministry and to retain its freedom of action in formulation of foreign policy, even though he was not a member of Politburo or Tito's inner circle. Under Popović direction, Yugoslav diplomacy adopted a less ideological and more pragmatic approach. Furthermore, Popović considered 1948 as the cornerstone of Yugoslav foreign policy. Disillusioned by the Soviet policies, he always remained suspicious of Moscow's intentions and insisted on the strict policy of equidistance between the West and East.¹⁸²

Yugoslav diplomats shared his views. The younger generation of diplomats were promoted to their positions during the Yugoslav–Soviet confrontation, when they were indoctrinated with fierce anti-Stalinism. Veljko Mićunović, a top Yugoslav diplomat who served as an Ambassador to Moscow from 1956 to 1958, noted in his diary in May 1956 that “for Yugoslavia good relations with both sides are of crucial and permanent importance, and

¹⁸⁰ A more substantial examination of the divide between the Ministry and Party line in foreign policy making can be found in Žarković recent article: Petar Žarković, “‘Sipovska koncepcija’ jugoslavensko-sovjetskih odnosa: partija i diplomatija na polovima nesporazuma”, *Tokovi istorije*, no. 1 (2017): 97-121.

¹⁸¹ Rinna Kullaa, *Non-Alignment and its Origins in Cold War Europe. Yugoslavia, Finland and the Soviet Challenge* (London-New York: I.B. Tauris, 2012), 3, 15-16, 22, 35-39, 90-93.

¹⁸² Aleksandar Nenadović, *Razgovori s Kočom* (Zagreb: Globus, 1989), 21-24, 33, 43, 50-51, 103, 107, 109, 121.

we should avoid improving relations with one side at the expense of the other side. In this case, our country would look like a man who tries to present himself as stable while standing only on one leg. In a contemporary world, a state in such difficult position can hardly talk about its stability.”¹⁸³

Thus, although Tito was the chief foreign policy-maker, the Ministry played a much greater role in the formulation of the foreign policy than is usually portrayed.¹⁸⁴ What is more, following the Moscow Declaration in 1956, and the recognition of East Germany in 1957 there were growing tensions within the foreign-policy circles regarding Tito’s policies. Popović was disappointed with these decisions and worried about Tito’s rediscovered affection for Moscow. The second reconciliation between Belgrade and Moscow and strengthening of party-to-party relations widened the political divide between Tito and Popović. The first sign of trouble was the Belgrade Conference when Tito gave a belligerent anti-Western speech without even informing Popović and the Ministry officials about it.¹⁸⁵ In 1962 the conflict became unavoidable with the rise of a pro-Ranković faction within the Party. At the beginning of May, Ranković and his followers launched an attack at the Ministry charging it for “diplomatic deformations,” a lack of party discipline, and inadmissible criticism that the Yugoslav “non-aligned policy is exaggerated, while our interest in Europe is insufficient.”¹⁸⁶

The Party insistence on the “unity of views” as well as greater “ideological and political work” had little effect on Popović and the work of the Ministry.¹⁸⁷ As he explained in his memoirs, for him “the resurrection of the ‘party line’ with political guidance from Moscow, in the name of socialism as a common historical objective, pulled us, I feared, in to

¹⁸³ Veljko Mićunović, *Moskovske godine 1956/58*. (Zagreb: Liber, 1978), 74.

¹⁸⁴ Mirko Tepavac (1922-2014), a Yugoslav foreign minister from 1969 to 1972, in his memoirs emphasized the following: “It is often thought that Tito kept foreign policy in his hands and that the ministers were mere implementers of his ideas and orders. It was not like that. Marko and several other prominent actors in our foreign policy and diplomacy were real experts who very well understood situation in the world... Tito, of course, had the final word on all important decisions. But to him only complete projects and programs were submitted, ones that were drafted by experienced and creative diplomats... Very rarely he would make a decision without the advice of the Ministry. And Foreign Ministry collegium was indeed a small ‘Institute’ for international relations and for years, I think, the best and most qualified part of the federal administration.”, Aleksandar Nenadović, *Mirko Tepavac. Sećanja i komentari* (Beograd: Samizdat Radio B92, 1998), 59.

¹⁸⁵ Nenadović, *Razgovori s Kočom*, 21-22, 125.

¹⁸⁶ As quoted in Žarković, “‘Sipovska koncepcija’ jugoslavensko-sovjetskih odnosa”, *Tokovi istorije*, no. 1 (2017): 101-102.

¹⁸⁷ By mid-1962 certain actions have slowed down the implementation of the Yugoslav policy towards the EEC. In June the Second division of the Ministry, Group for Western European Integration, insisted that policies regarding the EEC should be implemented without delays. DA MPS RS, PA, f-104, d. 3, 443268, Problemi za kolegijum DSIP-a, 19 June 1962, 1-2.

the pro-Soviet sphere and thus called into question the independence of the country which was the only acceptable basis of the non-aligned policy.”¹⁸⁸ The cementing of closer Yugoslav relations with Moscow after Tito’s trip to the Soviet Union in December 1962, therefore, further intensified the struggle between the Ministry on the one side, and Tito, Ranković and the Party on the other side.

A prelude to another confrontation was the meeting on Yugoslav policy towards the US, held on 29 March 1963 by the Ministry senior officials and Mićunović, who was appointed as Ambassador to Washington in 1962. Mićunović was critical of the Yugoslav policy, arguing that it is vital for economic reasons and international position of Yugoslavia to have better relations with Washington.¹⁸⁹ At the end of the meeting, State Secretary for Foreign Affairs Marko Nikezić agreed with Mićunović, and emphasized that “as regards to our general orientation we can draw the following conclusions in relation to the Western powers: it is necessary to strengthen our relations with Western Europe further, while at the same time we have undiminished interest to preserve our relations with the US.”¹⁹⁰

A few weeks later, on 23 April, the LCY CC Executive Committee discussed the Yugoslav international position and its policy towards the Soviet Union. The meeting was in fact convened by the Party leadership to discuss the case of Predrag Ajtić, Yugoslav Ambassador to Bulgaria. Pajtić was heavily criticizing Tito and Ranković for their rapprochement with the Soviet Union. As UDB-a was covertly monitoring Pajtić, the Party launched an investigation against him. The Pajtić case was used as an excuse to denounce the Foreign Ministry and its foreign policy orientation.¹⁹¹ During the meeting, Tito presented his views on an array of foreign policy issues, focusing on the Yugoslav-Soviet relations. Tito blamed the Ministry for pursuing a foreign policy which was not in line with the views of the Party and himself. Others followed Tito’s criticism of the Ministry. Despite fierce attacks, Popović repudiated criticism against the Ministry, which provoked Tito to raise charges against Ministry officials even further. At this point, Tito expressed his astonishment about the views expressed at the meeting by Mićunović and Nikezić, which were entirely contrary to the official policy. He also stressed that such people could not direct Yugoslav foreign policy and determine its orientation. Finally, Tito concluded the meeting by saying that

¹⁸⁸ Nenadović, *Razgovori s Kočom*, 30.

¹⁸⁹ AJ KPR, 837, I-5-b/141-11, Zapisnik sa sastanka kolegijuma DSIP-a održanog 29. marta 1963., 3-8, 17-19.

¹⁹⁰ Ibid, 21-24.

¹⁹¹ Pirjevec, *Tito i drugovi*, 471; Žarković, “‘Sipovska koncepcija’ jugoslavensko-sovjetskih odnosa,” *Tokovi istorije*, no. 1 (2017): 113.

people who were not ready to implement Yugoslav foreign policies should leave their positions.¹⁹²

The next round of this struggle took place on 18 May, at the plenary session of the LCY CC. The session was focused on the issue of Yugoslav's foreign policy towards a Sino-Soviet split. In his inaugural address, Tito also delivered a strong political message, stating that "there can be no different views when it comes to the uniform policy of the LCY and positions regarding either the internal development of the country or in the international arena in general."¹⁹³ But the substance of the Party critic of the Ministry was elaborated by Ranković. Indeed, in his speech, Ranković offered an extensive analysis of the roots of deviation in the foreign policy establishment. First, Ranković addressed their failure to understand the ideological dimension of the Yugoslav–Soviet rapprochement:

In this regard, we have always been most highly interested in maintaining the best possible, the true socialist relations (...) with all the socialist countries. The fact that we had troubles in the past (...) had no impact on us, the communists, in a way that we would lose sight of the ideals we had fought for, behind which we stand as a socialist country. (...) There is nothing more natural than the mutual aspirations of the socialist forces in the world to get well acquainted, to join their efforts and activities in the interests of socialism, peace and progress in the world in general, in the interest of creating a new type of more advanced international relations. (...) Such an attitude towards the development of cooperation with socialist countries had not always been properly understood by some of our comrades who work in important positions in the various institutions that have the task to study the possibilities for developing cooperation with the socialist countries.¹⁹⁴

Referring to the Yugoslav foreign trade relations, Ranković observed:

Many years of broad and diverse association of our commercial staff with institutions and companies in the West (...) left a certain mark, especially on some of our economic officials. Because of this, we did not make certain commercial arrangements and various other agreements with the socialist countries that we could and should have concluded, even though they would have been useful for our economy and

¹⁹² AJ, 507, ACK SKJ, III/97, Zapisnik sa sednice IK CK SKJ, održane 23. aprila 1963, 1, 2, 5, 7-32.

¹⁹³ AJ, 507, ACK SKJ II/23, Stav SKJ prema aktuelnim međunarodnim pitanjima i zadacima međunarodnog radničkog pokreta u borbi za mir i socijalizam, 16.

¹⁹⁴ AJ, 507, ACK SKJ II/23, Stenografske beleške sa V. plenuma CK SKJ, održanog 18. maja 1963, 29-30.

development. (...) With some of our people, in regard to our relations with the non-aligned countries, there are certain misunderstandings and deviations. They are articulated in certain reasonings that our activity, especially towards the Asia–African area, is excessive. There are some opinions that all our genuine interests are tied to Europe since we are a European country, and especially for those European countries that are considered to have the greatest economic importance for us. I think that such views are one-sided. (...) Therefore all those concepts that assume that the non-aligned world is too poor and weak to pose a serious economic force in tackling the world issues, or that it does not have a significance for economic development of the world, or that it can not become a stronger supporter of Yugoslav aspirations and interests in the narrow sense, are unacceptable and contrary to our policy. There are discussions that our active cooperation with the non-aligned countries is provoking negative reactions in the West, that we are allegedly unnecessarily aggravating relations with Western countries, and that our position and economic development ‘depends’ on these countries. Obviously, some of our people do not, due to these influences, understand – or do not want to understand – the significance of the most important international processes.¹⁹⁵

At the end of his expose, Ranković drew attention to two issues. First, he underlined that there is an urgent need to replace many of the Ministry staff with younger, better-educated people, especially since, as he explained it, “many of these comrades returned from the war with difficult health issues that were getting worse over the years. Today there are more than 20 employees with the critical mental health issues working in the Ministry. This is a significant problem, not only for them but us as well.”¹⁹⁶ Besides urging for a “more appropriate personnel policy,” Ranković also advocated the establishment of a separate body which would coordinate all institutions involved in making of the foreign policy, in order to ensure their rigorous implementation.¹⁹⁷

Hence, the position of the Ministry and Popović was difficult in this period, not only because they were suspected of being pro-Western. As explained in the first chapter, while Tito was focusing his attention on Yugoslavia’s three-sided relationship with the US, the Soviet Union and non-aligned countries from the mid-1950s, the Ministry was seeking to

¹⁹⁵ Ibid, 31-34.

¹⁹⁶ Ibid, 39.

¹⁹⁷ Ibid, 40.

protect the country's interests in Western Europe, since by and large Yugoslav diplomats believed that these countries were crucial for stability and prosperity of the Yugoslav economy. Now, these relations were threatened by the Yugoslav–Soviet rapprochement and the emergence of the EEC. Simultaneously as the Ministry was caught up in the internal political struggle, the Yugoslav diplomacy also had to appeal to the Western circles not to turn back on Yugoslavia. As Kennan disclosed to Carstens in 1962, “Popović, the Foreign Minister, is also very concerned. In the Ministry, there are people who had sworn with ‘tears in their eyes’ that the American government should not withdraw their hand from Yugoslavia. If this were to happen, Yugoslavia would be bankrupt in the shortest possible time, and then it would not be able any longer to remain independent from Moscow.”¹⁹⁸

Tito's support played a crucial role in the struggle between the conservative faction in the Party and the Ministry regarding foreign policy orientation, and between the liberal and conservative factions within the Party. Although Tito grew closer to the conservative faction following the failure of economic reform, in the course of 1963 he began to gradually endorse the liberal faction. As Unkovski-Korica argues, Tito was hesitant about the future direction of the country. While on one side he favoured greater political centralization, in the economic sphere he was indecisive about how to proceed with the reform agenda.¹⁹⁹ Several reasons prompted Tito to shift his support from the conservative to liberal faction. First, Bakarić and Kardelj, who were focusing their work on the institutional and legal transformation of the Yugoslav political system, began to insist on de-etatization instead of decentralization. By discrediting unitarism in this way, they avoided the accusation that they were pursuing purely republican, national interests. The shift was instrumental in appealing to the non-Serbian underdeveloped areas, especially Macedonia, whose elites were afraid of unitarism that leaned heavily towards Serbian dominance. These elites had, at the same time, an interest in supporting centralism for economic reasons as the centrally-controlled General Investment Fund was crucial in financing their economic development. Above all, Bakarić had a key role in forging a broad liberal coalition composed of Slovenia, Croatia, Macedonia, and Vojvodina, while Serbia brought only Montenegro into its bloc.²⁰⁰ Furthermore, internal division in the Serbian party between conservatives and reformists, led by Todorović,

¹⁹⁸ AAPD, 1962, Band I, dok. 97, Aufzeichnung des Vortragenden Legationsrats I. Klasse Krafft von Dellmensingen, 27 Februar 1962, 488.

¹⁹⁹ Vladimir Unkovski-Korica, *The Economic Struggle for Power in Tito's Yugoslavia* (London and New York: I.B. Tauris, 2016), 199-215.

²⁰⁰ Hilde Katrine Haug, *Creating a Socialist Yugoslavia: Tito, Communist Leadership and the National Question* (London and New York: I.B. Tauris, 2015), 172-180; Ramet, *Nationalism and Federalism in Yugoslavia, 1962-1991*, 88-89.

weakened Ranković's position.²⁰¹ Pirjevec also suggested that Ranković's insistence on the post of the Yugoslav Vice-President raised doubts in Tito's mind about the safety of his own position. His approval of the new Constitution in April 1963, which was drafted by liberals – mostly Kardelj – was an early sign of change in Tito's attitude.²⁰²

From mid-1963, external and economic factors played an increasing part in Tito's decision to support the liberal faction. In this period, the Kennedy Administration was greatly concerned about internal developments in Yugoslavia and its rapprochement with Moscow. On 14 March 1963 at a meeting with Tito, Kennan opened the question of a future platform for US–Yugoslav cooperation. The US government was ready to restore MFN status to Yugoslavia, support its economy by favourable credit arrangements, revive military cooperation and to encourage Western European countries to establish closer economic relations with Yugoslavia under the condition that the Belgrade government did not pursue Soviet patterns of economic and political development, and did not join the Warsaw Pact. Tito, who had no intention of radically changing the non-aligned course of the country and was eager to secure the US economic support for Yugoslavia, found such an arrangement acceptable. Following Dean Rusk's visit to Belgrade in May, intense diplomatic activity continued, opening the way towards rapprochement. Tito's visit to Washington in October was a final step in fixing the problem of relations with the US created by the Yugoslav policy in 1961/62, and by the end of the year, the US Congress restored MFN status to Yugoslavia.²⁰³

If Yugoslav relations with the US improved until the end of 1963, relations with the Soviet Union became complicated with the fall of Khrushchev in October 1964. Tito's realignment to a position closer to the Soviet Union on a large number of issues was largely motivated by a desire to support Khrushchev against the "Stalinist majority" within the Presidium.²⁰⁴ As a result, the fall of Khrushchev opened the dilemma over future Yugoslav–Soviet relations. Even though close ties with the new Soviet leadership were soon

²⁰¹ Unkovski-Korica, *The Economic Struggle for Power in Tito's Yugoslavia*, 215.

²⁰² Pirjevec, *Tito i drugovi*, 471-477.

²⁰³ Bogetić, *Jugoslavensko-američki odnosi 1961-1971*, 110-153.

²⁰⁴ FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Telegram From Embassy in Yugoslavia to the Department of State, Belgrade, March 15, 1963, 336-339.

established, Tito never created the kind of intimate alliance with Brezhnev that he had enjoyed with Khrushchev.²⁰⁵

On the whole, we can conclude that the complex interaction of both the internal and external political circumstances played a major role in determining the fate of liberal reforms. But what won Tito over to the reformist side, and ended his balancing between the conservative and liberal factions, was growing economic troubles, which became apparent in 1964. These difficulties finally persuaded Tito to support the liberal platform.

2.4.2. The Fall of the Yugoslav Strategy

The failure of the “little” economic reform opened a heated debate over the question of the optimal model of economic growth and development. The debate had high political importance since it determined the evolution of the country’s political and economic system. The strategy of balanced economic development and how to enhance economic performance lay at the heart of this debate. The liberal economic platform was outlined as a reaction to the so-called Yellow book and the opposition from central planners in the federal institutions who in the process of drafting the 1963 Constitution forcefully opposed Kardelj’s idea of a new system of planning and income allocation. The Yellow book, which was prepared in 1962 by a group of economists associated with the Federal Planning Institute under the supervision of Branko Horvat, denounced inadequately-devised reform as one of the main reasons for the economic crisis.²⁰⁶ Even though they emphasized the inefficiency of investments as a long-term factor that played a major role in the economic downturn, Bakarić asked for a study from the Institute of Economics in Zagreb about the structural causes of the economic stagnation to contest the conclusions of the Yellow book.²⁰⁷

²⁰⁵ Unkovski-Korica, *The Economic Struggle for Power in Tito’s Yugoslavia*, 215; Đoko Tripković, “Jugoslavensko-sovjetski odnosi i promena na sovjetskom vrhu 1963-1964”, *Istorija 20. veka*, 1 (2009): 113-121.

²⁰⁶ Šime Djodan and Uroš Dujšin, “Uzroci i karakteristike privrednih kretanja u 1961. i 1962. godini”, *Ekonomski pregled*, 8 (1963): 693-697.

²⁰⁷ Considering the fact that the White Book was authored by the most distinguished Croatian economists from the Zagreb Economic Faculty and Institute, and that later some of them has held the highest posts in the Yugoslav government, the document – called the White book – was regarded as emerging Croatian version of a “socialist model for a developed country.” Rusinow, *The Yugoslav Experiment*, 123-125; Dino Mujadžević, *Bakarić. Politička biografija* (Zagreb: Hrvatski institut za povijest, 2011), 220-221.

The debate culminated at the conference organized by the Yugoslav Association of Economists and the Federal Institute for Economic Planning on 17–19 January 1963 in Zagreb. The main argument of the liberals was that Yugoslavia had reached a higher level of economic development, so the economic policies should now be focused on the productivity-intensive growth. In their view, the autarkic economic development based on high investment and labour input was responsible for severe and deepening economic problems. These disproportions in the functioning of the economy indicated a structural instability of the economic system. The negative side-effects of the Yugoslav development strategy were most clearly expressed in fundamental external disequilibrium.²⁰⁸ As Bakarić in an interview to *Ekonomaska politika* in October 1964 underlined:

The increasingly shorter time intervals of the emergence of balance of payments difficulties show that it becomes dangerous to postpone deeper and bolder reforms through implementation of classical policy measures, and, especially, through foreign loans; these methods and means should instead be utilized just in the implementation of such changes in the economic system and the international economic relations, which will initiate the process of elimination of distortions on the basis of higher productivity of labour.²⁰⁹

Seeing that the autarkic development policy and the centralized economic system had created an economic structure marred by serious inefficiency, liberals were pressing for a comprehensive reform of the economic system in order to achieve internal and external balance in the economy.²¹⁰ Their policies were based on increasing the economic efficiency by strengthening the market mechanisms in the Yugoslav economy, and on export-oriented strategy as an important engine of economic growth. Indeed, in their economic model, foreign trade played a central role in achieving macroeconomic stability and spurring productivity and economic growth.²¹¹ There were several reasons why incorporation in

²⁰⁸ Fundamental disequilibrium is a situation where a country is in a position of persistent balance of payments deficit or surplus at a particular (fixed) exchange rate against other countries. For a detailed economic analysis of the Yugoslav situation see more in: Kovač, *Spoljnoekonomaska ravnoteža i privredni rast*, 63-76, 153-215.

²⁰⁹ Vladimir Bakarić, “Jugoslaviju ujedinjuje društveni progres, a ne idila istorije,” *Ekonomaska politika* 13, no. 654, 10 October 1964, 1408.

²¹⁰ Liberals stressed that the “little” economic reform failed since it did not go far enough to meet the objectives of reform, and was not implemented fully. Miha Marinko, Slovenian political leader, at the 1962 March meeting resolutely defended liberal reform by putting forward these arguments. Zečević, *Početak kraja SFRJ*, 93-95.

²¹¹ Although Yugoslavia has experienced a rapid expansion of foreign trade in the late 1950s (see Table 5), overall the role of foreign trade remained relatively small in Yugoslavia’s economy (as foreign trade per capita shows, until 1961 Yugoslavia was one of the least integrated European economies in the international trade). In

“international division of labour on a competitive basis” became a precondition for balanced development of the country. While throughout the 1950s industry was producing mostly for the protected domestic market, in the early 1960s it has become clear that the Yugoslav market was simply too small to provide the basis for expanding industry. Also, the domestic market was too narrow for the economy of scale needed for a more efficient production, and what is more, because of protectionist policies enterprises had no incentive to introduce new technologies and increase the volume of their production. Finally, the expansion of industrial exports was crucial in tackling the problem of disequilibrium in the balance of payments, especially since the industry was import dependent on Western Europe.²¹² Kardelj, at the meeting in March 1962, in following words explained the need for change in the economic policy:

However, there is no such policy – reduce imports and then your economy will be stable. This is a vulgar and unattainable illusion... I would literally forbid this slogan: to build industry only for our consumption so we would not need to import. We should build and develop facilities that would enable us to export. Then we will liquidate the balance of payments deficit; otherwise, it will not be liquidated. Besides, we can not create a modern industry if we focus only on the Yugoslav market... when it comes to a large-scale and modern industry, then it is evident that we must orientate towards the world.²¹³

1965, the share of foreign trade in GDP accounted for about 11%. Nikola Džuverović, “Privredna reforma i spoljna trgovina”, *Međunarodna politika* 16, no. 376 (1965), 22.

²¹² Rudolf Bičanić, *Economic Policy in Socialist Yugoslavia* (Cambridge: Cambridge University Press, 1973), 81; Krešo Džeba and Milan Beslač. *Privredna reforma. Što i zašto se mijenja* (Zagreb: Stvarnost, 1965), 24-25.

²¹³ Zečević, *Početak kraja SFRJ*, 194-195.

Table 11: Foreign trade per capita in 1961 (in USD)

	Exports	Imports
Sweden	366	391
Switzerland	376	499
Denmark	335	409
Belgium	461	496
Netherlands	447	531
Finland	237	259
Austria	170	250
Greece	27	85
Poland	51	57
Spain	23	36
Portugal	37	74
Great Britain	195	225
France	169	156
West Germany	226	195
Soviet Union	29	27
Italy	83	103
Yugoslavia	31	45

Source: Krešo Džeba and Milan Beslač, *Privredna reforma. Što i zašto se mijenja* (Zagreb: Stvarnost, 1965), 21.

While liberals were of the opinion that the increase in exports and a much wider incorporation in the international trade represented one of the basic premises of Yugoslav development, centralists continued to insist on the import substitution strategy of economic development. The theoretical rationale of their policies was elucidated by Radmila Stojanović and Nikola Čobeljić who was an influential Serbian economist and the President of the Serbian Association of Economists. Their approach was based on the theory of investment cycles in socialist economies.²¹⁴ According to them, cyclical movements in the socialist economies were a direct consequence of unbalanced economic growth. But such

²¹⁴ Nikola Čobeljić and Radmila Stojanović, “Prilog proučavanju investicionih ciklusa u socijalističkoj privredi”, *Ekonomist* 14, no. 4 (1961): 487-511.

disequibrated growth was, in their view, a sound development strategy necessary for rapid modernization of underdeveloped socialist countries. According to their theory, the investment cycle was composed of two periods. In the first period, the rapid expansion of heavy industry created supply bottlenecks and disproportions between the different economic sectors, which resulted in lower efficiency overall. For this reason, in the second phase, investments were focused on addressing domestic bottlenecks and other disproportions in order to balance economic development, increase productivity and support renewed economic growth.²¹⁵

The wavelike interchanges of expansion of the first and second department were for them “the basic form which manifests the dynamic development of the socialist economy because they are the result of the technical progress as a constant and enduring factor.”²¹⁶ In other words, the rapid expansion of heavy industry which generated technological progress made possible the subsequent rapid development of all other sectors. Therefore, they concluded that the idea of balanced growth is static and that it undermines technological progress and structural readjustment within socialist economies. Contrary to the precepts of balanced growth, they argued that the investment cycles offered a rational growth model as it promoted modernization of the economy without decreasing the rate of economic growth.²¹⁷

The implications of their theory were clear. The cyclical disruptions in the economic equilibrium were normal side-effects of the rapid industrialization of the socialist economies. But for these economies, high investment rates were essential for long-term economic expansion and modernization. Therefore, the central issue for them was not the question of excessively high investment rates, but the issue of an investment strategy that would optimize the development of the specific economic sectors and secure a higher and more stable long-run rate of economic growth necessary to achieve the objective of catching up with the West.²¹⁸ Their concept, however, ignored international trade and was based on an autarkic concept of the national economy. Foreign trade and international economic integration were, according to them, factors that only reduce the effects of investment cycles but do not have a crucial impact on them. They also ignored the problem of the balance of deficit, considering

²¹⁵ Nikola Čobeljić and Radmila Stojanović, *Teorija investicionih ciklusa u socijalističkoj privredi* (Beograd: Institut za ekonomska istraživanja, 1966), 7-10, 154-157.

²¹⁶ Ibid, 31.

²¹⁷ Ibid, 66-67, 73.

²¹⁸ Nikola Čobeljić, “Kriteriji izbora strukture investicija i mehanizam tržišta”, *Ekonomist* 16, no. 1 (1963): 215, 217-220.

it to be only of secondary relevance for economic development.²¹⁹ Čobeljić, in fact, argued that Yugoslavia “with the exception of non-ferrous metallurgy, especially the aluminum industry, does not have industries that could export. Everything else is of relatively minor importance.”²²⁰ Overall, the theory of investment cycles was intended to support the existing economic policy of extensive growth. It also implied the continuation of the well-established foreign trade policy.²²¹

Liberals vigorously disputed the theory of investment cycles. Aleksandar Bajt, an eminent Slovenian economist, criticized their “remarkably simple” model on two grounds. First, he underlined that the model was suitable for a centrally-planned economy, but not for Yugoslavia which was a “market economy.” Second, he dismissed the idea that investments could support higher sustainable economic growth regardless of their level of efficiency.²²² Bajt’s conclusion was that “Čobeljić and Stojanović mistake the effects of cyclical growth for their causes. Their theory appears to be more of a description of movements effected in the past and an apology for serious mistakes of economic policy that have been made.”²²³ Bakarić also entered into a fierce debate with Čobeljić.²²⁴ For him, the crucial factor of economic development which determines the growth rate of the economy was not the level of investments, but the productivity of labour. As he pointed out in the discussion, “the growth rate is determined by the productivity of labour. And accumulation is only the function of the productivity of labor.”²²⁵

The economic debate further accentuated the deep differences within the political and economic establishment.²²⁶ It also drew attention to the North–South divide in the country since the more developed republics – Slovenia and Croatia – were stoutly campaigning for the economic reforms. As Dyker explains, for these republics the policy of extensive

²¹⁹ Čobeljić and Stojanović, *Teorija investicionih ciklusa u socijalističkoj privredi*, 122-123.

²²⁰ Nikola Čobeljić, “Slabljenje plana i društvene kontrole – glavni uzročnici usporenog rasta u 1961. i 1962. godini”, *Ekonomist* 16, no. 1 (1963): 67.

²²¹ According to this theory, Yugoslavia has in 1959 entered into a second investment cycle. The first investment cycle lasted from 1948 to 1958 (first period from 1948 to 1952, and second period from 1953 to 1958). Čobeljić and Stojanović, *Teorija investicionih ciklusa u socijalističkoj privredi*, 148-162.

²²² Aleksandar Bajt, “Stuktura proizvodnje kao limit privrednog rasta”, *Ekonomist* 16, no. 1 (1963): 91-93.

²²³ Alexander Bajt, “Investments Cycles in European Socialist Economies”, *Journal of Economic Literature* 9, no. 1 (1971): 56.

²²⁴ Vladimir Bakarić, “Zakon vrijednosti, planiranje i objektivna određenost stope privrednog rasta”, *Ekonomist* 16, no. 1 (1963): 236

²²⁵ *Ibid*, 234.

²²⁶ The division was in fact even more complex since both groups were further divided among themselves on questions such as the extent of decentralization or recentralization and different understandings of the role of planning within decentralization etc. See more about the division within two camps in: Unkovski-Korica, *The Economic Struggle for Power in Tito’s Yugoslavia*, 190-194; Rusinow, *The Yugoslav Experiment*, 124.

economic growth was ill-suited as they had exhausted reserves of spare labour, and therefore a rise in productivity became the key issue for their continued economic growth. On the contrary, underdeveloped regions had an interest in continuing the policy of high rates of centralized investments and mobilization of underemployed labour resources.²²⁷ The confrontation and division between the two camps on the issue of economic policy, as explained earlier, resulted in an impasse.²²⁸ And although liberals managed to maintain control over the FEC as Boris Kraigher succeeded Todorović in 1962 as the most important economic policy-maker in the government, they did not manage to impose a change in economic policy.²²⁹ Still, in October 1962, in a discussion about the country's international financial position, the federal government underlined the crucial importance of foreign trade for the Yugoslav economy:

International economic exchange is a basic requirement of our economic development in general and therefore our overall internal economic policy and the economy as a whole need to be harmonized and subordinated to the expansion of our international cooperation. Until now, international economic exchange was seen as a matter of secondary importance. The current level of our foreign trade is significantly below the level of our economic development. This could be considered as the main cause of all our economic difficulties.²³⁰

The protracted deadlock over economic policy ended in 1964 with the intensification of economic instability. The corrective measures from 1962 that stabilized the economy and increased the growth rate in fact only further deepened economic imbalances. Growing inflation, an alarming balance of payments deficit and increasing international indebtedness were clear indications of economic deterioration. On 22 April 1964, the FEC discussed the worsening of the external deficit. The situation was extremely difficult. In first three months the deficit exploded and reached 22 billion dinars (the government planned a total deficit of 21 billion dinars for the entire 1964). The main problem was an increased volume of

²²⁷ Dyker, *A Yugoslavia: Socialism, Development and Debt*, 61-62.

²²⁸ The difficult Yugoslav dilemma was explained by Tito in 1963: "The time for extensive economic growth as the only and most optimal way of our development is not easy, if not impossible, to establish; neither can we divide our objective into a phase of extensive economic growth, which would be then followed by intensive economic growth. Than again, the orientation only to intensive economic growth would also not correspond to our situation (...). The main issue is to find the most effective relationship between these two aspects of a unique process of development. Both approaches are necessary at our level of development and for our situation." AJ KPR, 837, II-5-b-1/11, Neka od aktuelnih pitanja naše privredne politike, 1963, 3.

²²⁹ Unkovski-Korica, *The Economic Struggle for Power in Tito's Yugoslavia*, 206.

²³⁰ AJ SIV, 130, fascikla 256-362, Zapisnik sa 64. sjednice SIV-a, 9 October 1962, 4.

imported intermediate inputs which were necessary for the thriving industrial sector. However, the lack of an efficient system of export incentives coupled with strong domestic demand retarded the rate of growth of exports.²³¹ Moreover, the existing system of export subsidies to expanding, but inefficient, industry became too expensive to maintain. In 1964 the export subsidies amounted to 78% of the total value of exports (the Yugoslav government had to spend 269.1 billion dinars in order to export goods and services worth 343.5 billion dinars).²³² Finally, the economic situation had become untenable when Yugoslavia failed to meet its foreign financial commitments, and was forced to ask the IMF for financial assistance.²³³

The difficult economic situation was further aggravated by the inadequacies of the Yugoslav foreign trade strategy. As mentioned earlier, by 1964 Yugoslavia had significantly expanded its trade with the COMECON countries. Yugoslavia had limited interest in importing products from these countries because of their inferior quality, the terms of trade and – in some cases – incompatible technology, since the country was already dependent on the Western know-how. At the same time, Yugoslav enterprises were interested in exporting to the Eastern markets due to higher prices and lesser requirements in terms of quality standards, range of products and services etc. But the main problem in the trade with the Eastern bloc was the fact that the clearing system with the socialist countries did not provide Yugoslavia with much needed convertible currency. Moreover, as industrial production depended on imports from the West, increased exports to the socialist countries had actually worsened the Yugoslav balance of payments difficulties.²³⁴

²³¹ AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o spoljno-trgovinskoj razmeni i nekim problemima ekonomskih odnosa sa inostranstvom, 28 April 1964, 1-2.

²³² AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o problemima premiranja izvoza robe i usluga u 1964. i 1965. godini, 26 February 1965, 1.

²³³ Dyker, *A Yugoslavia: Socialism, Development and Debt*, 62.

²³⁴ AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o regionalnim problemima ekonomskih odnosa Jugoslavije sa inostranstvom, 1964, 10-11.

Table 12: Yugoslav balance of trade by region in 1961 (in billion of dinars)

	Exports	Imports	Balance of Trade
Convertible currency area (Western countries)	123.2	215.6	-92.4
Clearing currency area	59.2	47.7	+11.5
Other countries	22.6	17.3	+5.3
Total	205.0	280.6	-75.6

Source: AJ KPR, 837, III-B-1-b, br. kut. 70, Stanje i problem deviznog bilansa 1961. godine, 24 October 1961, 5.

Exports to the Third World countries also declined substantially after they had reached a record high in 1962 amounting to 21.83% of total Yugoslav exports. Besides the barter agreements which had an adverse effect on the external imbalance, the major obstacle to the expansion of trade with these countries was financial as they largely relied on credits to finance their imports. In the period from 1959 to 1964 Yugoslavia granted credits worth USD449.9 million to 29 developing countries, which accounted for almost half of the country foreign debt that at the end of 1964 totaled USD1028 million.²³⁵ And while Yugoslavia was giving eight-year loans with an interest rate of 3%, it was largely dependent on unfavourable short-term credits from the Western countries. As Minister of Finance Kiro Gligorov commented, “It is much more difficult for us to get credits than we are granting them to others.”²³⁶ In addition, at the moment when Yugoslavia was experiencing severe financial crisis, countries such as Indonesia, Brasil, Guinea, Togo defaulted on their payments and asked Yugoslavia for restructuring of their credits.²³⁷

²³⁵ Ibid, 4.

²³⁶ AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o spoljno-trgovinskoj razmeni i nekim problemima ekonomskih odnosa sa inostranstvom, 28 April 1964, 12.

²³⁷ Ibid, 3.

Table 13: Yugoslav credits to developing countries (1959-1964)

Year	in million of USD	number of countries
1959	50.8	4
1960	50.0	3
1961	195.0	9
1962	21.0	3
1963	68.1	7
1964	65.0	3
TOTAL	449.9	29

Source: AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o kreditima koje je Jugoslavija odobrila zemljama u razvoju, 17 October 1966, 2.

Hence, the widening and diversification of foreign trade relations which aimed to reduce the country's dependence on trade with the West and to address the discriminatory nature of the European integration process created immense economic tensions as a result of the country's industrial import dependency on Western European countries, mostly members of the EEC. An additional problem was the structure of Yugoslav debt, as 88% of external debt came from the convertibility area while only 12% from the clearing area (until the end of 1964 the West granted to Yugoslavia credits totaling USD904 million, and the East USD124 million).²³⁸ The excessive borrowing and ever-expanding trade deficits with the Western European countries, combined with the deficiencies of the economic system and regional foreign trade pattern, threatened the country's foreign debt sustainability and the future financing of its economic growth and development.

Belgrade was caught in a vicious circle imposed by intractable contradictions of its dysfunctional economic system and foreign trade objectives. The growing awareness of failing economic and foreign trade policy once again placed comprehensive economic reform on the political agenda. The reform had to address a number of structural maladjustments in the Yugoslav economy, but foreign trade was at the centre of these measures which aimed to restore macroeconomic stability. The link between foreign trade and economic stability was now recognized by the political leadership since, as Horvat highlighted in his study, "every

²³⁸ AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o regionalnim problemima ekonomskih odnosa Jugoslavije sa inostranstvom, 1964, 4.

cycle was set in motion by difficulties in international trade.”²³⁹ Thus, while previously foreign trade played a very limited role, with the main aim to provide necessary capital goods for the industrialization of the country and, at the same time, to secure sufficient amounts of foreign exchange to pay for the imports, now its role was drastically changed as a result of the rapid industrialization of the Yugoslav economy, as well as the shortcomings of the inward-looking economic policies.²⁴⁰

Eventually, at the 8th Party Congress in Belgrade in December 1964, the liberals, with the support of Tito, managed to initiate market-oriented reform of the economic system. The transformation of the economy from a closed to an open one had significant economic, political and social repercussions. The reform marked the beginning of a period of greater liberalization and even democratization of the society and political system with the aim to stabilize Yugoslavia politically. The importance of opening Yugoslavia to the world had been encapsulated neatly by Todorović: “

Without broader integration into the world markets we cannot have a stable development on a longstanding democratic, economic and social as well as political ground. Autarky and closed economy necessarily impose excessive administrative and statist interventions in the sphere of consumption and allocation as well as subjectivist enactment of ‘balance’ and ‘stability’. Thereupon the question of internal economic and socio-political stability, particularly for smaller countries, is directly linked to the international economic cooperation.”²⁴¹

In the economic sphere, the reform had to dynamize the economy by increasing its productivity, advancing modernization of the industry and promoting exports in order to stabilize the external balance and secure sustainable economic growth. Such measures implied much more comprehensive cooperation with the developed countries and

²³⁹ Horvat also criticized the economic policy makers as in his view “in every cycle the depression was deepened by reforms that were initiated in the retardation phase, i.e., when it was not the time for them.” Horvat, *Business Cycles in Yugoslavia*, 186.

²⁴⁰ The rationale for replacing the import substitution policy with the export orientation of the economy was most clearly explained by Todorović in June 1965: “Our production has already reached the level at which the export and import expansion to international markets is the basic condition for further development, and I would say that at this level our exports have become the objective measurement of the growth rate of our production, as well as the quality and stability of our economic growth in general. In other words... the evaluation of our products and services, of our labour productivity must come from the standpoint of world markets, and by this I am referring to the criteria and competition of the developed countries (...) This is not just some incidental measure, this is a question of further successful development of our economy as a whole.” AJ, 507, ACK SKJ II/26, Druga plenarna sednica CK SKJ održana 17. juna 1965. godine u Beogradu, 13.

²⁴¹ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Mijalko Todorović: Reforma i naši međunarodni ekonomski odnosi, 3.

reorientation of its exports towards the Western Europe. Indeed, in the following period, the Economic Reform brought Yugoslavia much closer to the EEC member countries. This once again inevitably opened the question of relations with the EEC.

Table 14: The structure of Yugoslav foreign debt in 1967

Lender	in million USD	in percentages
World Bank	165.5	12.0%
IMF	142.1	10.0%
United States	365.2	26.6%
Italy	189.8	13.8%
Great Britain	110.1	8.0%
West Germany	95.6	6.9%
France	90.8	6.6%
Japan	54.1	3.9%
Other countries from convertible currency area	89.2	6.5%
Total convertible currency area	1.302.4	94.7%
Total COMECON countries	72.3	5.3%
TOTAL	1.374,7	100%

Source: AJ SIV, 130, fascikla 415-648, Informacija o stanju naših dugova u inostranstvu, 6 November 1967, 3-4.

CHAPTER III

Difficult Road to a Partnership

3.1. The 1965 Economic Reform: Opening to the West

“The Yugoslav Road to Socialism” began in the aftermath of the Tito–Stalin split. The doctrine of self-management, whose cornerstone was built upon the Marxist concept of “withering of the state”, was a radical detachment from Stalin's bureaucratic regime.¹ As high-profile Yugoslav diplomat Vladimir Velebit pointed out in 1954, “We stood at the crossroads, and three roads were open to us: one leading into the desert of bureaucratic tyranny which the USSR had taken; the second, leading into a jungle of private ownership and economic anarchy, which would have brought us in a roundabout way to the very spot from which we had started ten years ago; and the third road, which we have chosen, and which has not yet been trodden.”² The main ideologists of the new Yugoslav paradigm were two Slovenes – Kardelj and Boris Kidrič – who together with Đilas developed the Yugoslav model of socialism based on workers’ self-management, social ownership of the means of production and a greater use of market mechanisms.³

Kidrič played a crucial role in developing the economic aspects of the workers’ self-management.⁴ Inspired by neoclassical economic thought, Kidrič proclaimed the market mechanisms to be an essential part of socialist planning.⁵ From that point on, the question of how to integrate free-market mechanism within the socialist foundations of Yugoslav society would remain the central issue of the economic reforms. The transition from the Soviet-type command economy towards “market socialism” was an exceptional undertaking, and as Russinow stated, “the dominant historic task of the regime, henceforth and for the next fifteen

¹ Dejan Jović, *Yugoslavia: a state that withered away* (West Lafayette, Ind.: Purdue University Press, 2009), 62-68.

² Vladimir Velebit, “Yugoslavia on Her Way towards a Socialist Democracy”, *International Affairs* 30, no. 2 (1954): 160.

³ Dennison Rusinow, *The Yugoslav experiment, 1948-1974* (London: C. Hurst for the Royal Institute of International Affairs, 1977), 62-70.

⁴ Hilde Katrine Haug, *Creating a Socialist Yugoslavia: Tito, Communist Leadership and the National Question* (London and New York: I.B. Tauris, 2015), 136.

⁵ Boris Kidrič, “Karakter robnonovčanih odnosa u FNRJ,” *Komunist* 3, no. 1 (1949): 47-49; Boris Kidrič, “Teze o ekonomici prelaznog razdoblja u našoj zemlji,” *Komunist* 5, no. 6 (1950): 1-3.

years, was to be the search for appropriate and politically acceptable mechanisms capable of translating this expectant climate into fulfilled expectations.”⁶

Prominent Slovenian economist Jože Mencinger described the new economic system introduced in 1950/51 as “administrative market socialism”, replacing the “administrative socialism” of the Soviet Stalinist type that had been in place since 1945.⁷ The pivotal moment was passage of the Basic Law on the Management of State Economic Enterprises by Working Collectives (or the Law on Workers’ Self-management) in 1950 that established the workers’ councils in industry.⁸ The 6th Party Congress in 1952 and the Constitutional Law of 1953 were the culmination of the decentralization and liberalization of the political and economic system. However, Kidrič’s death in 1953, the fall of Đilas next year, economic disturbances caused by the new economic system, and finally Yugoslav–Soviet reconciliation in 1955 all contributed to the rise of conservatism and greater centralization of the economy. As Unkovski-Korica has emphasized, the dilemma over securing social stability and political control, while at the same time managing market transformation and political devolution, represented a major challenge for the political leadership.⁹ Consequently, the government gradually implemented much greater price and wage control, most importantly by imposing the profit-sharing system of distribution over enterprises earnings.¹⁰

The debate about the economic system was reopened in late 1956 by Kardelj who argued that the wage system was responsible for the stagnation of the self-management. In the following period the supporters of market reform pressed for economic strengthening of the enterprises by replacing the profit-sharing with the income-sharing system. A greater liberalization of enterprises from state control through a freer distribution of income and higher control over earnings aimed to raise their productivity. According to this reasoning, workers lacked the incentive to increase productivity as they were not financially rewarded directly for the results of their work. Their position was most concisely expressed by the slogan “to each according to his work.” The debate was highly sensitive as it determined

⁶ Rusinow, *The Yugoslav experiment*, 62.

⁷ Jože Mencinger, “Emergency Exit”, in *Ispred vremena*, ed. Mijat Lakičević (Beograd: Fond za otvoreno društvo, 2011), 167. This model was theoretically explained by Branko Horvat in his book *The Political Economy of Socialism* (New York: M.E. Sharp, 1982).

⁸ In 1951 the government inaugurated a new method of planning by global proportions and thereby abandoned Soviet-type economic planning. Instead of a system of centralized planning the new system was based on indicative plans that anticipated macro-economic proportions of development. Branko Horvat, *Planning in Yugoslavia* (Beograd: Jugoslavenski institut za ekonomska istraživanja, 1966), 1-9.

⁹ Vladimir Unkovski-Korica, *The Economic Struggle for Power in Tito’s Yugoslavia. From World War II to Non-Alignment* (London and New York: I.B. Tauris, 2016), 123-124.

¹⁰ Rudolf Bičanić, *Economic Policy in Socialist Yugoslavia* (Cambridge: Cambridge University Press, 1973), 129.

control over the investment funds.¹¹ Although the 1958 reform formally introduced the income-sharing system, stiff opposition from various government and party circles undermined its implementation. And while the debate about income distribution continued throughout this period, as long as the economic situation was stable and the growth rate remained high, there was no real incentive for widespread reform.¹²

Finally, as explained in the previous chapter, the economic crisis of 1961/62 prompted a struggle over the future direction of the Yugoslav economic and political system. Following the 8th Party Congress in December 1964, in 1965 an extensive program of economic and political liberalization was inaugurated. The Economic Reform was a landmark event that initiated a new stage of development in the Yugoslav economy; namely, “market socialism”, or as Rusinow put it, “laissez-faire socialism.”¹³ The reform was designed by a new generation of Yugoslav economists, mostly working in institutions in Zagreb and Ljubljana, but also members of Serbian and Macedonian liberal factions, who from the early 1950s had the opportunity to go to both Western and Eastern European countries and the Soviet Union for education, academic exchanges and international conferences.¹⁴ Transnational discussions by these economists played a major role in modelling Yugoslav market socialism.¹⁵ The Economic Reform was based on the neoclassical model of market socialism of the Polish economist Oskar Lange. Unlike Lange’s competitive model in which the state owned the means of production, the model promoted by leading Yugoslav liberal economists was based on distrust of the state and a fully competitive market. In conjunction with the social ownership of firms and workers’ self-management, in their view such a model represented

¹¹ Dušan Bilandžić. *Hrvatska moderna povijest* (Zagreb: Golden marketing, 1999), 406-408.

¹² The leading advocate of these changes had become the Federation of the Yugoslav Trade Unions under the new leadership of Vukmanović (from 1958). Their demand that the enterprises should control and distribute “the means for expanded reproduction” was most strongly underlined at the Fourth Congress of the Federation of Trade Unions of Yugoslavia in 1959. Rusinow, *The Yugoslav experiment*, 114-117.

¹³ Dennison Rusinow, “Laissez-Faire Socialism in Yugoslavia: Experiences and Compromises in Efforts to Liberalize a Command Economy” (DIR-1-67), *American Universities Field Service Reports Service, Southeast Europe Series* 14, no. 2 (1967).

¹⁴ Dragomir Vojnić, “Reforma i tranzicija. Kritički osvrt na događanja u prijelomnim vremenskim razdobljima”, *Ekonomski pregled* 57, no. 5-6 (2006): 398-400.

¹⁵ The transnational dialogues among economists, as Johanna Bockman in her innovative and seminal work has shown, were significant for the evolution of Yugoslav economic thought, not only as they offered an opportunity for them to become familiar with contemporary economic knowledge in the capitalist West and socialist East, but also as they enabled Yugoslav economists to employ neoclassical economics in developing a Yugoslav model of market socialism. Johanna Bockman, *Markets in the Name of Socialism: The Left-Wing Origins of Neoliberalism* (Stanford: Stanford University Press, 2011), 76-104.

the optimal form of decentralized socialism which would ensure the greater efficiency of the economic system, but also greater equality and economic democracy.¹⁶

Because the Yugoslav economic model offered an alternative to the Soviet-style system, and because some Yugoslav economists, especially the internationally well-known Branko Horvat, greatly contributed to a better understanding of the Yugoslav experiment in the transnational epistemic community, the Yugoslav economy would become to be recognized globally by the 1970s as the neoclassical economic model of market socialism.¹⁷ The Yugoslav model was also attractive to other Eastern European communist countries. After the death of Stalin, the reform initiatives, especially in Poland, Hungary and GDR were growing stronger.¹⁸ By the late 1950s, however, these attempts failed to stimulate major changes in their economic systems. Following the Yugoslav 1965 reform, a second wave of economic reforms began, most radically in Hungary and Czechoslovakia.¹⁹ In 1967 Czechoslovakia introduced the New Economic Mechanism (NEM), while Hungary started to implement its own reform in January 1968.²⁰ The Yugoslav leaders were aware of the importance of their experience for the socialist world and the role that the economic success played in legitimising their experiment. As Tito commented after the introduction of the Economic Reform, “we have a responsibility not only to ourselves, but to the outside world as well... Today the world is watching how we are implementing the reform and... many believe that we will succeed.”²¹

The Economic Reform was carried out in two stages. It began in March 1965 with the reform of banking sector, but a far-reaching reform of economic system was launched in July after an extensive debate among the Party leadership over the price system and parity of

¹⁶ Ibid, 11, 75, 83.

¹⁷ Stanford economist Benjamin Ward was the first western economist who in the mid-1950s realized that the Yugoslav economy was organized according to the neoclassical economic model of market socialism. Especially famous was his article from 1958, “The Firm in Illyria: Market Syndicalism” in which he advanced the so-called Illyrian model that was based on the unrealized reformed Yugoslav model. In the 1960s Ward’s Illyrian model became popular as it presented an alternative economic model, which at the time were widely discussed among economists. A decade later, in the 1970s, another American economist, a Czech émigré Jaroslav Vanek, underlined the importance of the Yugoslav case for the neoclassical economics as he found that “the labour-managed system appears to me to be superior by far, judged on strictly economic criteria, to any other economic system in existence.” Ibid, 94-97.

¹⁸ In the 1950s the market socialist proposals were drafted by economists in these countries, most notably by György Péter and János Kornai in Hungary, and Oskar Lange in Poland. Geoffrey Swain and Nigel Swain, *Eastern Europe since 1945* (Basingstoke and New York: Palgrave Macmillan, 2003), 142-143.

¹⁹ In Czechoslovakia Ota Šik was strongly advocating for market-oriented reforms from the early 1960s. Ibid, 163-164.

²⁰ Ivan T. Berend, *An economic history of twentieth-century Europe: economic regimes from laissez-faire to globalization* (Cambridge and New York: Cambridge University Press, 2006), 178-179.

²¹ AJ, 507, ACK SKJ, III/114, Stenografske beleške sa sednice IK CK SKJ, održane 16. decembra 1965., 90.

dinar.²² The main goals of the reform were to modernize the economy and increase its productivity by addressing the structural weaknesses of the economic system, introducing modern technologies, and increasing industrial concentration. These policies had to support competitive, export-oriented sectors of the economy and thereby to integrate Yugoslavia more closely into the world economy and improve the country's trade balance. They also had to strengthen market mechanisms and increase the decision-making autonomy of enterprises. Ultimately, these measures aimed to accelerate long-term economic development and growth, and consequently to achieve a higher living standard based on the increased productivity of economy.²³

There were additional motives for the implementation of the reform. Bakarić, a prime backer of the reform, shed a light on his reasons to support such a radical transformation of the economy by saying in November 1965 that

it seems to me that our present system places Yugoslavia in a position to forever remain an appendage of the developed countries and that there is an urgency to develop an internal stimulus to increase productivity and to incorporate the country in the international division of labour. The political role of Yugoslavia and its economic role as a socialist country are completely out of proportion.²⁴

Besides catching up with the West, the progress of international economic integration and rapid advances in science and technology required a different approach to the issue of economic, scientific and technological cooperation with the other countries. As Todorović emphasized in his report to the Party plenum in June 1965, in the changed circumstances the Yugoslav economy had to adapt to be able to face fierce competition from the most developed nations.²⁵

This was even more important since there was growing awareness in policy circles that a new readjustment of international economic relations was underway. Instead of an international division of labour between the industrial and agricultural and raw-material producing countries, these relations were now defined based on the country's productivity.

²² AJ 507, ACK SKJ, III/111, Zapisnik sa sednice IK CK SKJ od 28. maja 1965.

²³ AJ, 507, ACK SKJ, III/111, Zapisnik sa sednice IK CK SKJ, održane 28 maja 1965., 8-9; AJ, 507, ACK SKJ, II/26, Mijalko Todorović: Aktuelni zadaci u daljem razvitku privrednog sistema i društveno-ekonomskih odnosa, 17 June 1965, 2-9.

²⁴ AJ, 507, ACK SKJ, III/113, Stenografske beleške sa sednice IK CK SKJ, održane 12. i 13. novembra 1965., 126.

²⁵ AJ, 507, ACK SKJ, II/26, Mijalko Todorović: Aktuelni zadaci u daljem razvitku privrednog sistema i društveno-ekonomskih odnosa, 17 June 1965, 7-9.

Thus, the new international economic order was increasingly determined by a division between the highly productive economies underpinned by advanced technology and economies of scale, and the low productivity economies. This meant that Yugoslavia had to implement comprehensive economic reform and integrate into the world economy not only to address its underlying structural economic problems, but also to respond to the new reality of international economic relations.²⁶ Finally, by introducing structural changes to the economic system in order to secure more balanced economic growth and development, the Yugoslav leadership wanted to stabilize the economy as well as the political system since economic problems were intensifying internal tensions within the society and among the Yugoslav republics. At a Party meeting in December 1965, Tito emphasized this in the following way:

The stabilization of our economy is our main task, as this will ensure a stable socialist community, regardless of the multinational character of our country. The stabilization of the economy, under the condition that all the elements are organized as we have envisaged, will cement and stabilize the relations between our nations. Many issues that are today creating obstruction and discord between nationalities are caused by uneven economic development, inappropriate internal allocation and a whole range of other issues (...) We have to structure the foundation of our socialist community on a sound and planned economic policy.²⁷

Hence, the strategic goal of the reform was to ensure more efficient and more sustainable economic development as a necessary condition for maintaining social and political stability. In fact, reformers pursued much broader changes in all areas of society, including public services, administrative and political system.²⁸ Of course, they primarily concentrated their attention on the economic system. The institutional changes had to overcome the systematic distortions that had been introduced during the period of “administrative socialism”, but were reinforced from the mid-1950s. The reform was focused on three main areas. First of all, the abolition of the administrative system of price controls was crucial as prices no longer reflected the real cost of production because of widening disparities between world and local prices. The government used price controls mainly to keep inflation in check, and to promote rapid industrialization through ensuring low prices for raw materials, components and other

²⁶ AJ, 507, ACK SKJ, IX, S/a-219, br. kut. 9, Osnovne tendencije u razvoju svjetske privrede i međunarodnih ekonomskih odnosa, September 1967, 26.

²⁷ AJ, 507, ACK SKJ, III/114, Stenografske beleške sa sednice IK CK SKJ, održane 16. decembra 1965., 91.

²⁸ Edvard Kardelj, “Društveno ekonomski zadaci privrednog razvoja u narednom periodu”, in: *Osmi kongres Saveza komunista Jugoslavije* (Beograd: Komunist, 1964.), 103-105; Berislav Šefer, *Ekonomski razvoj Jugoslavije i privredna reforma* (Beograd: Stručna štampa, 1969), 13-19.

production materials. As a result, almost 70 per cent of all prices were administratively determined in 1962. These disproportions were further aggravated by the complex system of multiple exchange rates that essentially corresponded to a system of export and import taxes and subsidies. In effect, world prices had no influence on the domestic price system.²⁹

Second, the reform aimed to drastically reshape the system of central control over investments that additionally amplified the inefficiency of the Yugoslav economy. As earlier mentioned, excessive and poorly planned investments based on political rather than economic rationale led to overinvestment in certain industrial sectors. Moreover, due to the flawed exchange rate and price system, it was unclear which production had comparative advantages in international trade and therefore should be given priority for investment. Consequently, the allocation of investments was not based on international criteria, resulting in an internationally uncompetitive economic structure.³⁰

To address these problems, the government introduced reforms in price system and the fields of banking, investment and finance. The price system was substantially liberalized, although there were multiple compromises built into the system. The investment system was decentralized, with the intention of replacing centrally investment funds with banks and enterprises as the principal agents of investment decisions.³¹ The only state investment fund, the Fund for Development of Underdeveloped Regions, was established in February 1965 with the main aim of reducing disparities in the levels of development between Yugoslav regions. The reform also underlined the growing importance of the private sector and implemented important changes in the field of agriculture, housing etc.³²

²⁹ Uroš Dujšin, *The Yugoslav Economic Reform as a Process of Transition from a Closed to an Open Economy: An Appraisal* (Williamstown, Massachusetts: Williams College, 1970), 14-16; Krešo Džeba and Milan Beslać, *Privredna reforma. Što i zašto se mijenja* (Zagreb: Stvarnost, 1965), 60-68.

³⁰ Dujšin, *The Yugoslav Economic Reform*, 17-23; Džeba and Beslać, *Privredna reforma*, 68-78.

³¹ The banking system was radically reformed so banks could operate on a commercial basis. Besides localizing the control of credit, taxes on enterprises were significantly reduced (from 49 to 29 per cent), and enterprises were permitted to retain a major portion of their profits for investments. Milica Uvalić, *Investment and property rights in Yugoslavia. The long transition to a market economy* (Cambridge: Cambridge University Press, 1992), 7; Rusinow, *The Yugoslav experiment*, 177.

³² John Lampe, *Yugoslavia as History. Twice there was a country* (Cambridge: Cambridge University Press, 1996), 178-179.

Table 15: Share of products under the administrative system of price controls (in percentages)

Industry Sector	1958	1961	1962
Electricity	100.0	100.0	100.0
Coal	97.0	97.0	76.2
Oil	42.3	54.5	96.0
Ferrous metallurgy	100.0	100.0	100.0
Non-ferrous metallurgy	41.2	27.4	93.0
Non-metallic minerals	0.0	0.0	70.6
Metal working industry	0.0	0.0	51.6
Shipbuilding	0.0	0.0	0.0
Electrical equipment	0.0	0.0	84.8
Chemicals	31.2	30.3	82.4
Building materials	0.0	0.0	65.0
Lumber industry	23.8	22.7	79.0
Pulp and paper	0.0	10.8	96.1
Textiles	0.0	0.0	55.0
Leather and footwear	0.0	0.0	82.1
Rubber industry	0.0	0.0	72.5
Food industry	41.1	34.5	66.6
Tobacco industry	100.0	100.0	100.0
Other industry	0.0	0.0	4.6
Industry Total	31.2	28.6	67.0

Source: N. Pilipović, “Invazija kontrole cena”, *Ekonomska politika*, February 10, 1963.

Apart from these reforms, which strengthened the self-management system and made market the main mechanism of resource allocation, opening the economy to foreign trade and investments was vital to modernization and greater efficiency. Indeed, to achieve these goals and encourage the export-led growth strategy it was necessary to liberalize the foreign trade

system, revise the foreign currency exchange system and devalue the dinar.³³ Thus, the formulation of the new foreign trade strategy was an essential part of the new economic concept. Boris Krajer explained the interdependence between structural adjustment of the economy and opening to the international economy in an address to the National Assembly concerning the introduction of the Economic Reform on July 24 1965:

The aim of this action is to accelerate transition into intensive economic growth as a precondition for a broader integration of our economy in the world market, and vice versa – a broader integration of our economy in the world market is a requirement for intensive economic growth, rationalization, and modernization of our economy, which could not be successfully implemented in a narrow Yugoslav market. That is why we are today introducing the reform: we have reached the stage of development at which our economy depends upon significant expansion of market, as one of the main regulators of the economic development.³⁴

3.1.1. Economic Reform and the Yugoslav Position in the International Economic Relations

Until the mid-1960s Yugoslav economic theory largely ignored the role of foreign trade.³⁵ However, the Economic Reform opened an extensive debate about the transformation of the foreign trade system as well as the overall development of foreign trade relations. The liberal platform of Yugoslav foreign trade was for the first time outlined by Todorović in his lecture, titled *Reforma i naši međunarodni ekonomski odnosi* (The Reform and our international economic relations), to officials of the Ministry of Foreign Affairs on 3 June 1966.³⁶ A more elaborated concept of foreign trade relations was provided in November by two economists, Milan Aleksić and Ivo Fabinc, in the document *Ekonomski odnosi sa inostranstvom i stabilizacija privrede* (Foreign economic relations and stabilization of the economy).³⁷ They

³³ At the organizational level, initially all enterprises had been allowed to participate in foreign trade. From 1955, however, a Chamber of Foreign Trade had been granting direct trading rights to select enterprises, and thereby establishing “a privileged elite amongst Yugoslav enterprises.” David Dyker, *A Yugoslavia: Socialism, Development and Debt* (London and New York: Routledge, 1990), 35.

³⁴ „Stupila na snagu privredna reforma – ekspozicija B. Krajer,” *Vjesnik*, no. 6621, 25 July, 1.

³⁵ Dragomir Vojnić, “Ekonomika nauka i privredni razvoj Jugoslavije,” *Ekonomski pregled* 10 (1966): 583-584.

³⁶ Todorović speech was published in journal *Pregled* in 1966. AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Mijalko Todorović: *Reforma i naši međunarodni ekonomski odnosi*, 46.

³⁷ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Milan Aleksić, Ivo Fabinc: *Ekonomski odnosi sa inostranstvom i stabilizacija privrede*, Novembar 1966.

drafted the report after the Party leadership instructed the newly established Commission for International Relations and the International Workers Movement to discuss the contemporary evolution of the world economy and the Yugoslav position in international economic relations.³⁸

The first meeting of the Commission, held on 29 December 1966, revealed serious disagreements in the economic and political establishment over three major issues.³⁹ In the first place, the question of the coexistence of socialist and capitalist economic systems prompted an intense discussion. The increasing role of the government intervention in the Western economies in the post-war period led to the rise of convergence theories in the West which argued that technological progress and industrial concentration were crucial in the harmonization of the economic policies and structures of the two socioeconomic systems.⁴⁰ Yugoslav liberals largely embraced the theory of convergence articulated by the Dutch economist Jan Tinbergen in the early 1960s.⁴¹ Tinbergen, whose theory attracted worldwide attention, argued that both communist and capitalist economies were getting closer as each system was adopting elements of the other one because of economic rationality.⁴² It is hardly surprising that the idea of converging socialist and capitalist economic systems, which would eventually lead to the formation of a homogeneous system based on planning and market mechanisms, was attractive to the liberal faction within the Party. They looked as well at the rapprochement between the West and East as part of the world transition to socialism.⁴³ Contrary to the view that the differences between capitalism and socialism were gradually diminishing, conservatives dismissed the theory of convergence. As Radmila Stojanović highlighted, “capitalism and socialism are two opposing systems and we should have no illusions about the fact that for a prolonged period they will remain opposed to each other.”⁴⁴

³⁸ AJ, 507, ACK SKJ, IX, S/a-145, br. kut. 8, Osnovne karakteristike razvoja svetske privrede i međunarodnih ekonomskih odnosa i mesto naše zemlje u njima, 18 January 1967, 1-6.

³⁹ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Osnovne tendencije u razvoju svjetske privrede i međunarodnih ekonomskih odnosa, mart 1967, 1-4.

⁴⁰ Peter Van Ham, *Western Doctrines on East-West Trade: Theory, History and Policy* (Basingstoke: Macmillan Academic and Professional LTD, 1992), 70-80.

⁴¹ AJ, 507, ACK SKJ, IX, S/a-145, br. kut. 8, Osnovne karakteristike razvoja svetske privrede i međunarodnih ekonomskih odnosa i mesto naše zemlje u njima, 18 January 1967, 16-17.

⁴² The idea of convergence was launched by Tinbergen in 1961 in an article published in the journal *Soviet Studies*. Jan Tinbergen, “Do Communist and Free Economies Show Converging Patterns?”, *Soviet Studies* 12, no. 4 (1961): 333-341. See more in: Van Ham, *Western Doctrines on East-West Trade*, 71-72.

⁴³ AJ, 507, ACK SKJ, IX, S/a-145, br. kut. 8, Osnovne karakteristike razvoja svetske privrede i međunarodnih ekonomskih odnosa i mesto naše zemlje u njima, 18 January 1967, 17.

⁴⁴ *Ibid*, 23.

Moreover, conservatives insisted that the economic competition between the two camps had in fact become intensified.⁴⁵

The second issue that provoked bitter arguments and heated discussions was the changing character of international economic relations. The conservative group maintained that technological advances and economic concentration strengthened the statist tendencies in the world economy and diminished the autonomy of enterprises in the national economy. Furthermore, in their view such developments would necessarily give rise to a strong, centralized government.⁴⁶ As expected, liberals denied such claims. For them, economic agglomeration and industrial clustering was a positive process, but only in an open, internationally competitive economy. And in such an economic model, the autonomy of enterprises was the main promoter of economic growth.⁴⁷

Finally, the issue of economic growth and development of the socialist countries and their role in the world economy triggered a debate over the effectiveness of the Soviet economic model. The conservatives argued that the immense economic and social achievements that had been recorded in socialist countries demonstrated the macroeconomic efficiency of this model, and that the Soviet Union was indeed catching up with the US. According to them, the slowdown in the socialist countries' economic growth was simply a natural consequence of them having reached a higher level of economic development. The liberals disagreed with this view and emphasized the negative consequences of "bureaucratic methods of development." In fact, they argued that, because of the modern technologies, the emerging economic arrangements between the socialist countries would have adverse effect on their economic development, while the market mechanisms of the developed countries would further intensify the international division of labour.⁴⁸

⁴⁵ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Osnovne tendencije u razvoju svjetske privrede i međunarodnih ekonomskih odnosa, mart 1967, 3.

⁴⁶ Čobeljić explained this view by saying "I have the conviction that the process of centralization and concentration is one of the most noticeable phenomena of our time. (...) under the influence of modern technological revolution this process is exceptionally accelerated. Modern technological progress leads to immense concentration and centralization of production, the financial system, to a concentration of scientific research, etc. (...) And every centralization of production involves some sort of centralization of power." AJ, 507, ACK SKJ, IX, S/a-145, br. kut. 8, Osnovne karakteristike razvoja svjetske privrede i međunarodnih ekonomskih odnosa i mesto naše zemlje u njima, 18 January 1967, 30.

⁴⁷ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Osnovne tendencije u razvoju svjetske privrede i međunarodnih ekonomskih odnosa, mart 1967, 4.

⁴⁸ Horvat also dismissed the idea that the higher level of economic development would inevitably generate economic slowdown, by pointing to the case of Japan which continued its rapid economic growth although it has already become a developed country, while Czechoslovakia, the most developed socialist country, was experiencing a serious economic crisis, primarily as a result of its inappropriate and wasteful bureaucratic economic model. AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Osnovne tendencije u razvoju svjetske privrede i međunarodnih ekonomskih odnosa, mart 1967, 1-2; ACK SKJ, IX, S/a-145, br. kut. 8, Osnovne karakteristike

Obviously, these opposing views regarding the distinguishing features of international economic relations reflected the differences between conservatives and liberals over the evolution of the Yugoslav economic and political model. These clearly had wider implications for the formulation of the Yugoslav foreign trade and economic policies. Most importantly, embracing the theory of convergence had direct repercussions for closer cooperation with the capitalist countries. Namely, if the capitalist and socialist economic systems were converging, and if this process was a manifestation of the triumph of socialism, then more comprehensive economic cooperation with the West was ideologically acceptable. Bridging the gap between capitalism and socialism undoubtedly opened the path for a development of closer contacts with the West, especially in the economic field. And although the debate concerning international economic relations and foreign trade continued, in this period liberals formulated a foreign trade development strategy that would articulate Yugoslav policy of increased economic cooperation with the Western Europe countries and the EEC.

The first foreign trade policy draft programme had been formulated by the Commission in March 1967. After consultations within the Commission this draft was refined in April, and the final document, *Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme* (Development of Yugoslav foreign economic relations in the conditions of implementation of the Economic Reform), was completed in September.⁴⁹ The basic premises of their views about the international economic relations were in accordance with the ideas laid down by Yugoslav theorists in the late 1950s and early 1960s. The integration of the world economy and gradual emergence of the global markets, decolonization along with expansion and strengthening of socialism worldwide remained the basic standpoint of their concept.⁵⁰ In addition, the increasing economic interdependence of the European economies across the Iron Curtain since the early 1960s was in their view an economic foundation of "active peaceful coexistence" between the

razvoja svetske privrede i međunarodnih ekonomskih odnosa i mesto naše zemlje u njima, 18 January 1967, 52-53.

⁴⁹ The report was drafted by Vladimir Dragomanović, Ivo Fabinc, Predrag Mihajlović and Žarko Mrkušić. Ivo Fabinc had the key role in finalizing the report. He also publicized it in an article published in journal *Međunarodni problemi* in 1967. AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, March 1967; ACK SKJ, IX, S/b-145, br. kut. 5, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, April 1967; ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, September 1967; Ivo Fabinc, "Ekonomski odnosi Jugoslavije sa inostranstvom u uslovima sprovođenja privredne reforme", *Međunarodni problemi* 19, no. 2 (1967): 9-28.

⁵⁰ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Mijalko Todorović: Reforma i naši međunarodni ekonomski odnosi, June 1966, 9-18.

two blocs. As they firmly believed that growing trade between capitalist and socialist countries and deepening of economic ties on all-European basis would eventually lead to a “single world market”, they underlined the need to link Yugoslavia much more closely with these developments.⁵¹ Moreover, as the new era would redefine international economic relations, they considered that the socialist countries, in the first place Yugoslavia, should take the initiative in East–West economic rapprochement. As Todorović stressed in his lecture in 1966:

Socialist countries should be the main pioneers encouraging all the progressive elements in the process of world integration as well as initiating new forms of international relations for their own sake and for their inclusion in the world economy and global markets on equal footing, in order to constitute new practices and impose them on the capitalist countries, which should at the same time enable the developing countries to be involved as equally and independently as possible in these global processes.⁵²

A key element of Yugoslav integration with the world economy and transition towards an internationally competitive economy was the establishment of an open trade regime and currency convertibility.⁵³ These changes were supposed to open the economy to world-market forces and thereby create conditions for a more efficient economic development. Another pillar of the Yugoslav strategy was autonomous enterprises. By removing administrative and institutional obstacles, enterprises were forced to assume primary responsibility for deepening the country’s relations with the international economy, based on their independent economic decisions. As Todorović highlighted, these policies had to exclude political voluntarism from economic decision-making and to assure the most rational inclusion of Yugoslavia into the international trade.⁵⁴ Furthermore, the new foreign trade system was an essential component of the policy of de-etatization, and not only in the national framework, since “in the longer term de-etatization and direct linking of the economies should, as a matter of fact, become a universal principle of international economic cooperation on the whole, because only on such a basis it is possible to create a single world market, regardless of and despite the different socio-economic systems.”⁵⁵

⁵¹ Ibid, 12-14, 18-19.

⁵² Ibid, 20.

⁵³ The government aimed to achieve currency convertibility by 1970. AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Kiro Gligorov: Borba za konvertibilnost dinara, april 1966, 1-7.

⁵⁴ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Mijalko Todorović: Reforma i naši međunarodni ekonomski odnosi, June 1966, 22-23.

⁵⁵ Ibid, 23.

All in all, the development of international economic relations in conjunction with the transformation of the economic system drastically changed the role of foreign trade since intensification of economic, technical and scientific cooperation had to be a driving force in the structural changes of the Yugoslav economy.⁵⁶ Besides raising the technological level of industry, the liberal faction believed that exposure to foreign competition was also critical for increasing the productivity of the economy.⁵⁷ Furthermore, by embracing the theory of comparative advantage, the reformers emphasized that the opening of the economy would incentivize specialization in production and services where Yugoslavia had comparative advantages. It was anticipated that growth in these economic sectors would be stimulated, in particular tourism, transport services, forestry and lumber industry, agriculture and the agro-processing industry, textile industry, shipbuilding, the electrical equipment industry, non-ferrous metallurgy etc.⁵⁸

However, they believed such enhancement of economic performance would only materialize if Yugoslavia increased trade with the most developed economies.⁵⁹ Without doubt for them, import of Western advanced technology and machinery was essential for restructuring the Yugoslav industry and increasing its competitiveness. While in the case of imports “any change in direction of imports from the most optimal routes necessarily means immediate reduction in production efficiency and increase in production costs for consumers of imported products,” the situation regarding exports was more complex.⁶⁰ Although the liberals emphasized the importance of exports to the developed economies to stimulate and ultimately improve production efficiency and address the balance of payments deficit, additional considerations had to be taken into account as well, especially the need to secure export markets for industry. Therefore, as the optimal solution – exporting predominantly to the developed countries – was infeasible, Fabinc called for “second best solutions”. This dilemma was best explained by him in the following way:

⁵⁶ Bičanić noted that in this period “foreign trade policy was guided by the basic principle of integration into the international division of labour and the restructuring of the Yugoslav economy.” Bičanić, *Economic Policy in Socialist Yugoslavia*, 150; AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, March 1967, 15-17.

⁵⁷ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Milan Aleksić, Ivo Fabinc: Ekonomski odnosi sa inostranstvom i stabilizacija privrede, Novembar 1966, 8-11.

⁵⁸ AJ, 507, ACK SKJ, IX, S/a-145, br. kut. 8, Osnovne karakteristike razvoja svetske privrede i međunarodnih ekonomskih odnosa i mesto naše zemlje u njima, 18 January 1967, 40-44; ACK SKJ, III/114, Osnovni ekonomsko-politički problemi društvenog plana razvoja Jugoslavije do 1970. godine, 7 December 1965, 16; Jakov Sirotković, „Osnovni razvojni problemi i ciljevi ekonomske politike,” in: *Suvremeni problem jugoslavenske privrede i ekonomska politika*, ed. Jakov Sirotković (Zagreb: Informator, 1965), 27.

⁵⁹ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Milan Aleksić, Ivo Fabinc: Ekonomski odnosi sa inostranstvom i stabilizacija privrede, Novembar 1966, 10-17.

⁶⁰ Fabinc, “Ekonomski odnosi Jugoslavije sa inostranstvom u uslovima sprovođenja privredne reforme”, 26-27.

As for exports, we can expect direct effects of increased efficiency only if exports are oriented to markets where efficiency is higher than in the national economy. Generally, those are markets of the most developed open economies whose foreign economic relations are based on the multilateral system of payments. On the other side, there are less developed closed economies whose production is not exposed to external and domestic competition and that use the system of bilateral payments (clearing). Between these two extremes there are many transitional forms that vary from country to country.⁶¹

Against this background the liberals opened the question of the regional orientation of Yugoslav foreign economic relations. Besides economic liberalization, which was regarded as essential in ensuring a more cost-effective and competitive production in global terms, concerns about the external disequilibrium were central for this debate.⁶² Additionally, realizing that foreign trade was hampered in the post-war period by short-term balancing between the different world regions, which was largely the result of difficult international position of the country, the aim was to formulate a strategy which would stabilize the regional composition of the foreign trade in the long run.⁶³ This has become even more urgent since the number of Yugoslavia's trade partners increased to 108 in 1964, and there was a growing dispute in the policy establishment whether Yugoslavia should focus its attention to further develop and deepen trading relations with the main trading partners, or whether it should continue to pursuit policy of broad trade relations with a large number of countries.⁶⁴ Evidently, a change in the nature of the Yugoslav involvement in international trade and the need to ensure effective participation in the global markets raised important policy issues that were at the heart of this debate.

⁶¹ Ibid, 25.

⁶² AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Milan Aleksić, Ivo Fabinc: Ekonomski odnosi sa inostranstvom i stabilizacija privrede, Novembar 1966, 31.

⁶³ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, April 1967, 13-14. Yugoslav economist Ljubomir Madžar underlined the importance of a stable trade pattern in increasing the efficiency of the economy. According to his research, Yugoslavia had the most stable economic and trade relations with the Western European countries. Ljubomir Madžar, „Jedna empirijska analiza stabilnosti spoljnotrgovinskih tokova”, *Ekonomist* 13, no. 3 (1968): 580-587.

⁶⁴ This issue was raised on more occasions in this period, most importantly by the Minister for Foreign Trade Nikola Đžuverović in April 1964. Đžuverović questioned the economic rationality of promoting trade with a large number of countries since 71 per cent of Yugoslav exports went to only 12 countries, and 69 per cent of imports came from these countries (Italy, West Germany, UK, US, Soviet Union, East Germany, Czechoslovakia, Poland, India, Indonesia, Egypt and Brazil). Instead, he advocated that Yugoslavia should focus on developing closer ties with its main trading partners. AJ KPR, 837, III-B-1-a, br. kut. 68, Informacija o spoljno-trgovinskoj razmeni i nekim problemima ekonomskih odnosa sa inostranstvom, 28 April 1964, 8-9; III-B-1-a, br. kut. 68, Informacija o regionalnim problemima ekonomskih odnosa Jugoslavije sa inostranstvom, 1964, 1; AJ, 507, ACK SKJ, III/114, Stenografske beleške sa sednice IK CK SKJ, održane 16. decembra 1965., 87-88.

3.1.2. Regional Orientation of the Yugoslav Trade

The main objective of the foreign trade strategy was to increase the access for Yugoslav exports to international markets.⁶⁵ Therefore, the changing pattern of global trade and foreign economic policies of the major Yugoslav trading partners played an important role in shaping this strategy. The Institute for Foreign Trade projected that by 1970 the OECD member countries would remain the key drivers of global demand, absorbing two-thirds of world exports. The EEC would, according to this analysis, continue to be the single biggest market by consuming 30 per cent of the world exports, while the developing countries would account for 18 per cent, and the COMECON countries for 15 per cent of world demand. Furthermore, as a result of the slowdown in economic growth of socialist and developing countries as well as the US, they anticipated a much stronger increase of demand in the Western European markets which continued to experience a strong economic growth.⁶⁶ This further increased Yugoslav interest in deepening economic ties with the Western Europe.

Analysis of the foreign economic policies of Yugoslav trading partners also counselled prioritization of closer economic cooperation with the Western European countries. Trade with developing countries had reached its limits by the early 1960s when their financial constraints led to gradual decline of trade relations. The share of Yugoslav exports to Third World countries decreased from 21.83 per cent in 1962 to 10.71 per cent in 1970, while imports during the 1960s averaged around 10 per cent of total Yugoslav imports.⁶⁷ It was obvious that the expectations of trade expansion with developing countries from the late 1950s were unfounded, and that both Yugoslavia and these countries were too economically and financially weak to establish a partnership which could play a more substantial role in the Yugoslav foreign trade relations. Besides lack of capital and little obtainable credit to finance trade, barter deals also hindered trade with these countries, especially as they were contrary to Yugoslav intention of establishing an open trading system. Essentially, Yugoslav policymakers recognized that the increased economic cooperation with the least developed countries depended on modernization and higher financial stability of

⁶⁵ AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, September 1967, 17.

⁶⁶ AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, March 1967, 18-19; ACK SKJ, IX, S/a-219, br. kut. 9, Osnovne tendencije u razvoju svetske privrede i međunarodnih ekonomskih odnosa, Septembar 1967, 19-22.

⁶⁷ In November 1967, the Ministry for Foreign Trade drafted a report on Yugoslav trading relations with the developing countries in the period from 1956 to 1967. The report provided a detailed analysis of the main obstacles to trade with these countries. AJ SIV, 130, fascikla 415-648, Spoljno-trgovinska razmena SFRJ sa zemljama u razvoju od 1956-1967. godine, 9 November 1967, 11-16.

their economies.⁶⁸ As development prospects for many of these countries were poor, the government decided to pursue closer economic links with more developed nonaligned countries, most importantly Egypt and India.⁶⁹

The Economic Reform also had an adverse impact on trading relations with socialist countries. Although the economic rapprochement reached a high point in 1965/66, the new economic and foreign trade policy marked the start of deterioration of trading relations with the COMECON.⁷⁰ Apart from balance of payments difficulties, the new foreign trade regime hindered economic cooperation with the centrally-controlled economies in which governments had a monopoly over foreign trade, which was conducted under a strict bilateral clearing system. In addition, a planned approach to regional specialization and coordination of investment strategies among COMECON countries also made closer economic cooperation more difficult.⁷¹ Reformers were aware that decentralization of economic decision-making and liberalization of foreign trade would result in systematic differences that would distance Yugoslavia from the socialist bloc. The market-oriented reform efforts in Eastern Europe which aimed to transform the economic mechanisms and foreign trade sectors of socialist countries were for this reason regarded as crucial in further enhancing economic and trade cooperation with them. In particular, Yugoslav reformers saw the absence of an efficient system of multilateral clearing as the most important obstacle to trade with COMECON countries. As the chances for multilateralization of trade appeared to be rather slim, another option which would maintain stable trade relations with the East was to gradually move towards currency convertibility.⁷² However, soon it became evident that achieving foreign currency convertibility was an extremely complicated and difficult task.

Since weakening of economic relations with the non-aligned and socialist countries increased Yugoslavia's economic dependence on the West, certain political actors were looking for other options, which would better correspond to the country's international position, for integrating Yugoslavia into the world economy. Stanovnik, who was a member

⁶⁸ AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, September 1967, 21-25.

⁶⁹ In 1967 Egypt, India and Yugoslavia signed a tripartite preference agreement in New Delhi. The agreement aimed to expand trade and economic cooperation between countries. Augustin Papić, "Ekonomska saradnja Jugoslavija-Indija-UAR", *Međunarodna politika* 18, no. 402 (1967): 22-24; AJ, 507, ACK SKJ III/125, Trojni sastanak ministara privrede u Nju Delhiju, 16 March 1967.

⁷⁰ The share of Yugoslav exports to the COMECON countries decreased from 41.96 per cent in 1965 to 32.07 per cent in 1970. Simultaneously, imports from these countries fell from 31.21 per cent in 1966 to 20.57 per cent in 1970 (see Table 19).

⁷¹ AJ SIV, 130, fascikla 415-648, Analiza o spoljnotrgovinskoj razmeni između SFRJ i socijalističkih zemalja Istočne Europe od 1964. do 1967. godine sa predlogom mera, 3 November 1967, 1, 5-8, 11-16.

⁷² AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Razvoj jugoslavenskih ekonomskih odnosa sa inostranstvom u uslovima provođenja privredne reforme, September 1967, 25-30.

of the FEC from 1966 to 1968, explicitly asked for alternative regional focus in relation to the process of international economic integration.⁷³ Under the guidance of Branko Horvat, the Institute of Economic Studies elaborated on Stanovnik's proposal and examined the idea of economic integration of the Balkan and Danube region which was, according to Horvat, Yugoslavia's only alternative to major European trading blocs. The idea was based on the belief that economic reforms in the Eastern European countries would offer a new basis for mutual economic relations. Improved integration of Eastern European economies, including Yugoslavia, could attract neutral countries – Austria, Sweden and Finland – to cooperate more closely with them. Such a grouping, built upon the gradual relaxation of the Cold War tensions in Europe and increasing East–West economic cooperation, should ultimately result in a market of 120 million people stretching from the North Sea to the Mediterranean. The Soviet Union would not be included in this framework, but Horvat argued that Moscow could look at this initiative as an “Eastern OECD”.⁷⁴

Irrespective of how far-fetched this idea was, it did receive some support within government circles. Since it was clear that any kind of concrete policy initiative was out of the question, the government decided to pursue this agenda cautiously, without attracting attention through bilateral contacts with these countries.⁷⁵ As Gligorov emphasized during the debate, “I think that the Danube–Balkan area deserves to be particularly accentuated and that we should undertake distinct measures to initiate broader economic cooperation which would gradually, together with changes of their economic systems, and with our further economic strengthening, bring us eventually into the position that we could talk about the common market or some forms of such market.”⁷⁶ However, this policy came to an end as the Eastern European reform initiatives in the Yugoslav direction were suppressed following the Soviet invasion of Czechoslovakia in August of 1968.

Finally, it was clear from the beginning that the Economic Reform would bring Yugoslavia much closer to Western Europe, especially as trade with the US became less significant from the early 1960s (the share of imports coming from the US accounted for

⁷³ In his view, Yugoslavia had to provide such an alternative since “coexistence and the whole concept of non-alignment depends on this answer (...). We must give an answer to a new understanding of coexistence, because we are told – coexistence between the East and West led to the elimination of war, but it seems at our expense (...). We need to give an answer to the questions what is cooperation and what kind of cooperation, and not this kind of cooperation of a friendly conduct, but cooperation based on a decisive, revolutionary alternative in the world economy.” AJ, 507, ACK SKJ, IX, S/a-219, br. kut. 9, Stenografske beleške sa sastanka Komisije CK SKJ za međunarodne odnose i međunarodni radnički pokret, održan 10. novembra 1967, 50-57.

⁷⁴ AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Stenografske beleške sa sastanka Komisije CK SKJ za međunarodne odnose i međunarodni radnički pokret, održan 21. novembra 1967, 56-60.

⁷⁵ Ibid, 84-87.

⁷⁶ Ibid, 87.

20.60 per cent of the total in 1962, but dropped to 5.57 per cent in 1970, while the share of Yugoslav exports in this period remained fairly stable at around 6 per cent). Indeed, integrating with the Western European economies was crucial for the success of the Reform and stabilization of the economy for several reasons. First, since by the mid-1960s industry had become dominant in Yugoslavia's economic structure, it was vital to increase industrial exports to Western European markets to earn hard currency in order to service external debt and to finance imports of Western technology, intermediary goods and certain consumer goods needed to meet domestic demand. The import of modern Western machinery was particularly necessary for industrial restructuring and improving competitiveness of the economy. Hence, the liberalization of trade led to a significant increase of imports from Western European countries. As Table 19 shows, in the period from 1965 to 1970 imports from the EEC rose from 25.96 to 39.83 per cent, while imports from EFTA increased from 10.95 to 17.95 per cent. At the same time, the share of Yugoslav exports to the EEC increased from 25.15 to 32.89 per cent, and to the EFTA member countries from 8.78 to 14.04 per cent. The structure of exports to the Yugoslav main trading partners, the EEC countries, changed as well. While the share of agricultural products remained at the same levels, amounting to 47 per cent of the Yugoslav exports to the EEC, the share of industrial exports was increasing and in 1967 it made up for 36 per cent of exports to the EEC countries.⁷⁷

Second, in order to attract capital investments and acquire new technologies, equipment and know-how from the West, in 1967 Yugoslavia became the first communist country to allow private foreign investments by adopting the legislation on joint ventures between domestic and foreign enterprises.⁷⁸ Alongside addressing the problem of domestic capital shortages and backward technology, industrial cooperation with the Western companies also had to expand industrial exports to Western European markets. Joint ventures also offered a way to circumvent increasing barriers to these markets.⁷⁹ Initially, the number of joint ventures was relatively small. Until 1971 only 44 agreements were registered, attracting USD90 million worth of foreign investment. The number of joint ventures increased to 170 by 1977 after legislative changes in 1971 provided foreign investors with a

⁷⁷ Blagoje Rajković (ed.). *Evropska ekonomska zajednica i položaj Jugoslavije* (Beograd: Privredni pregled, 1969), 135, 187.

⁷⁸ Miodrag Sukasijević, "Sistem samoupravljanja i poslovni poduhvati sa inostranim firmama", *Međunarodna politika* 18, no. 416-417 (1967): 28-31.

⁷⁹ AJ, 507, ACK SKJ, III/114, Stenografske beleške sa sednice IK CK SKJ, održane 16. decembra 1965., 83-89; ACK SKJ, III/129, Nacrt zaključaka CK SKJ o idejnim i političkim problemima sadašnje faze ostvarivanja privredne i društvene reforme, 14 October 1967, 24-25.

greater degree of security, channelling an additional USD325 million of direct foreign investments to the Yugoslav economy.⁸⁰ With few exceptions, joint ventures were established with Western partners, mostly firms from EEC countries.⁸¹

Third, the reform underlined the importance of service exports (especially tourism) for the Yugoslav economy.⁸² In the 1960s, tourism revenues became an increasingly important source of convertible currency and an efficient way to reduce the balance of payments deficit. The receipts from tourism were even more important as it was clear that even though the long-term benefits of capital goods imports would have a significant positive effect on productivity and export competitiveness, in the first period of reform they would widen the trade deficit.⁸³ In effect, tourism was recognized as one of the key sectors of development, vital for reducing the current account deficit and stimulating economic growth.⁸⁴ Therefore, tourism also played an important role in relations with the Community, as more than half of foreign tourists and tourist revenues came from EEC countries.⁸⁵

⁸⁰ New Legislation on Joint Venture in Yugoslavia Adopted, by Zdenko Antić, 4 April 1978. HU OSA 127-3-167, RAD Background Report/76; Publications Department; Records of the Radio Free Europe / Radio Liberty Research Institute; Open Society Archives at Central European University, Budapest, 2-3.

⁸¹ From the outset, most joint ventures agreements were signed with companies from West Germany (27.2 per cent) and Italy (20.0 per cent). Overall, about 80 per cent of all these contracts were concluded with the Western European companies. AJ SIV, 130, III-B-1-a, br. kut. 69, Informacija o industrijskoj saradnji sa inozemstvom sa predlogom mera za unapređenje ove saradnje, 29 October 1968, 35.

⁸² Sirotković, „Osnovni razvojni problemi i ciljevi ekonomske politike,” 27.

⁸³ AJ, 507, ACK SKJ, IX, S/b-145, br. kut. 5, Milan Aleksić, Ivo Fabinc: Ekonomski odnosi sa inostranstvom i stabilizacija privrede, Novembar 1966, 10.

⁸⁴ “Zaključci savjetovanja ‘Turizam kao faktor razvoja zemlje’”, *Ekonomski pregled*, 3-5 (1969): 486-489.

⁸⁵ Rajković, *Evropska ekonomska zajednica i položaj Jugoslavije*, 23-24.

Table 16: Number of tourists from EEC member states (in 1000)

	1964	1965	1966	1967
Germany	574,683	561,040	657,747	739,677
Italy	252,370	302,341	423,839	504,638
France	161,568	212,610	297,756	285,596
Holland	94,781	104,783	141,408	162,175
Belgium-Luxembourg	48,215	57,428	96,485	87,623

Source: Blagoje Rajković, ed., *Evropska ekonomska zajednica i položaj Jugoslavije* (Beograd: Privredni pregled, 1969), 24.

Moreover, there was an even greater source of “invisible” transactions coming from the EEC member states: remittances from Yugoslav migrant workers abroad. In the 1950s, Yugoslav authorities attempted to put an end to outbound worker migration. When it became obvious in the early 1960s that this restrictive policy had failed, authorities tried to regulate migration. But seeing that structural adjustment of the economy would create political and social tensions as the economic liberalization would undermine the uncompetitive manufacturing and raise unemployment (unemployment rose from 6.1 per cent in 1965 to 7.9 per cent in 1968),⁸⁶ policymakers decided to permit economic migration to the West. In the period from 1965 to 1970 number of workers going abroad increased from just 140 000 to 672 000. The vast majority, almost two-thirds, went to West Germany. The government liberalized emigration not only to ease the problem of unemployment but also to increase the country’s invisible earnings and hopefully stimulate further industrial and economic cooperation with host countries. By the early 1970s, however, the economic advantages of the Yugoslav labour migration policy came increasingly under scrutiny because of the social, political, security and even economic problems that derived from the vast loss of the workforce at home.⁸⁷

⁸⁶ Alica Wertheimer-Baletić, “Regionalne demografske implikacije zapošljavanja u inozemstvu”, *Ekonomski pregled*, 7-8 (1969): 706. Woodward in her major study, *Socialist Unemployment: The Political Economy of Yugoslavia (1945-1990)*, provides in-depth analysis of the paradox of unemployment in a socialist country.

⁸⁷ Vladimir Ivanović, *Geburtstag pišes normalno. Jugoslavenski gastarbajteri u SR Nemačkoj i Austriji 1965-1973* (Beograd: Institut za savremenu istoriju, 2012), 49, 60, 70-77; Ivo Vinski, “Zapošljavanje Jugoslavena u inozemstvu”, *Ekonomski pregled*, 7-8 (1971): 366.

Table 17: Invisible balance of payments (in millions of US dollars)

Year	Inflow	Outflow	Balance	% of Balance of Payments
1954	35.3	49.6	-14.3	-16.7
1960	95.3	88.7	+6.6	+3.8
1964	258.4	158.0	+110.4	+39.8
1966	403.0	248.0	+155.0	+56.0
1970	1120.0	478.0	+642.0	+58.1

Source: Oskar Kovač, *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 212.

Table 18: Structure of foreign currency inflows in percentage (1954-1970)

Year	1954	1960	1964	1970
Total	100.0	100.0	100.0	100.0
Export of goods	86.4	85.4	77.0	60.4
Invisible Transactions	13.6	14.6	23.0	39.6
Structure of invisible transactions				
Transportation services	6.5	7.6	9.3	9.4
Tourism	2.1	2.3	6.1	9.7
Workers' Remittances	2.1	2.6	5.1	17.7
Other	2.1	2.1	2.5	2.8

Source: Oskar Kovač, *Spoljnoekonomska ravnoteža i privredni rast. Problemi i iskustva Jugoslavije* (Beograd: Institut ekonomskih nauka, 1973), 211.

The Economic Reform initiated a radical democratization of the Yugoslav economy, state and society. The transformation into a consumer-oriented socialist market economy, increasing participation in international trade, and decentralization of the state brought Yugoslavia much closer to the Western world. Moreover, the reformers realized that economic growth and greater prosperity depended on Western-oriented economic policies and the continued inflow of western goods, investment, and advanced technologies. For these reasons, the reform promoted trade and closer economic ties with Western Europe at the cost of ties with the socialist and developing countries. But greater opening of the economy to the West also led to a greater vulnerability. Yugoslavia became dangerously dependent on Western Europe, in the first place on the EEC countries for trade, tourism, and the remittances of expatriate workers. Consequently, Yugoslav relations with these countries became of increasing relevance to the economic and, ultimately, political stability of the country.

As the policy establishment had come to recognize that the country's vital economic interests lay in Western Europe, it became clear that Yugoslavia would have to establish closer cooperation with Western financial and economic organizations. First, apart from receiving substantial credits from the US, UK, Italy and France, the government turned to the IMF for the financial assistance necessary to implement reforms.⁸⁸ Second, in January 1965 the FEC decided to ask for full membership in the GATT in order to acquire more open access for exports of industrial products to Western markets (Yugoslavia gained full membership in 1966).⁸⁹ Third, the reform also promoted closer cooperation with the OECD since it provided Belgrade with better insight into economic and political developments in OECD member countries as well as cooperation in various fields relevant for the country's economic development.⁹⁰ Finally, the new foreign trade strategy underlined the importance of reaching an accommodation with the Western European trading blocs against the emerging trade barriers to industrial and agricultural products from non-member countries.

⁸⁸ The government asked for a financial package of USD160 million in medium and longer-term credits. AJ, 507, ACK SKJ, III/113, Stenografske beleške sa sednice IK CK SKJ, održane 12. i 13. novembra 1965., 121; FRUS 1964-1968, Eastern Europe, Volume XVII, Memorandum from the Under Secretary of State for Economic Affairs (Mann) to the President's Special Assistant for National Security Affairs (Bundy), Washington, 22 July 1965, 476-478.

⁸⁹ AJ KPR, 837, III-B-2-b, br. kut. 75, Informacija o učešću Jugoslavije u trgovinskim pregovorima u GATT-u, 18 January 1965, 1-6.

⁹⁰ DA MSP RS, PA, f-136, d. 2, 411718, Stalna delegacija SFRJ pri OECD: Izveštaj za 1966. godinu, 20 March 1967, 42-45, 54-55; AJ SIV, 130, fascikla 660-1093, Informacija o tendencijama razvoja OECD i nekim pitanjima naše saradnje, 5 November 1969, 16-24. See more about the Yugoslav-OEEC/OECD relations in: Andrej Marković and Ivan Obadić, "A socialist developing country in a Western capitalist club. Yugoslavia and the OEEC/OECD, 1955-1980." In: *The OECD and the International Political Economy Since 1948* (eds. Matthieu Leimgruber and Matthias Schmelzer, forthcoming, Palgrave 2017).

In September 1965 the FEC decided to approach EFTA with the aim of discussing Yugoslav–EFTA relations.⁹¹ After three rounds of exploratory talks, in 1967 the Joint EFTA–Yugoslavia Committee was established to deal with the economic issues of common interest and to encourage industrial and trade cooperation between Yugoslavia and EFTA member countries.⁹² For the Yugoslav government, however, a trade agreement with the EEC was of far greater significance since trading relations with EFTA countries were of secondary importance and largely regulated on a bilateral basis, and because EFTA was, in the words of high-ranking Yugoslav official Toma Granfil, “wholly devoted to establishing cooperation and integrating into the Common Market.”⁹³ In fact, signing a trade agreement with the EEC became an imperative after the introduction of the Economic Reform because its success relied heavily on preserving agricultural exports and increasing industrial ones to EEC countries. In such a way, policymakers wanted to address the expanding imports from the EEC. Besides reducing barriers to trade, the agreement should have also opened the way to a broader economic, industrial and financial cooperation with the EEC member states. As the trade agreement was supposed to facilitate integration into the Western European market, it became one of the main goals of Yugoslav foreign (trade) policy in this period.

⁹¹ EFTA member states could consolidate their cooperation in the wake of De Gaulle’s veto against British membership in January 1963. The strengthening of trade and economic relations between members again prompted Yugoslav interest in the organization. DA MSP RS, PA, f-110, d. 10, 443459, Zabeleška o odnosima Jugoslavija-EFTA, 1 September 1963, 5; PA, f-143, d. 9, 437907, Predlog programa akcije u vezi sprovođenja zaključka SIV-a o pokretanju informativnih razgovora SFRJ sa EFTA, 2 October 1965; Wolfram Kaiser, “Challenge to the Community: The Creation, Crisis and Consolidation of the European Free Trade Association, 1958-1972”, *Journal of European Integration History* 3, no. 1 (1997): 9.

⁹² DA MSP RS, PA, f-135, d. 8, 434081, Informacija SFRJ-EFTA, 13 October 1967, 1-2.

⁹³ AJ, 507, ACK SKJ, IX, S/a-220, br. kut. 9, Stenografske beleške sa sastanka Komisije CK SKJ za međunarodne odnose i međunarodni radnički pokret, održan 21. novembra 1967, 23.

3.2. The Second Yugoslav Approach to the EEC

After the failure of the first approach to the EEC in 1962, the Yugoslav–EEC relations continued through sporadic, unofficial contacts between Yugoslav diplomats and Commission officials. While Yugoslav establishment was divided over the issue of closer economic relations with Western Europe and the EEC, the Community actions were blocked by West Germany policy towards Yugoslavia. In February 1963, the Commission internally discussed the issue of exploratory talks between Yugoslavia and the EEC. The Directorate-General for External Relations (DG I) argued that the Yugoslav case could set an important precedent and clear the way for other socialist countries to develop relations with the EEC.⁹⁴ Furthermore, the improvement of Soviet–Yugoslav relations after Tito’s visit to the Soviet Union in December 1962 and increased trade with the socialist countries together with negotiations over an associate status in the COMECON also raised concerns in Western capitals, especially in US foreign policy circles, about the economic restrictions and barriers to Yugoslav trade.⁹⁵

Despite the political importance of opening the Yugoslav–EEC consultations, by July the Commission decided to put this issue aside due to the Bonn government opposition.⁹⁶ Italy as well decided not to raise it because of the inactivity of the Yugoslav diplomacy towards the EEC.⁹⁷ In 1964, however, as Yugoslavia entered into the economic difficulties, and with the gradual ascendancy of the liberal faction in the Party which pressed for the Economic Reform, Belgrade re-examined its policy towards the EEC. The change of the Yugoslavia’s EEC policy was initiated by the National Assembly, which liberals used to challenge the conservative policies and advance their ideas. On 26 February 1964, the

⁹⁴ HAEU, BAC 97/1986/2, DG I, Aide-Mémoire: Demande de la Yougoslavie visant à entamer des conversations techniques avec la Communauté, Bruxelles, le 4 février 1963; BAC 97/1986/2, DG I, Note à l’attention de M. le Ministre Rey, Bruxelles, le 12 février 1963.

⁹⁵ FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Telegram from the Embassy in Yugoslavia to the Department of State, Belgrade, May 14, 1963, 353-355; The Yugoslav diplomatic reports have also reported about the increased concern about the Yugoslav–Soviet rapprochement in the EEC member countries. DA MSP RS, PA, f-109, d. 4, 432621, Neki momenti iz aktivnosti i stanja u Evropskoj ekonomskoj zajednici u prvoj polovini 1963. god, 20 September 1963, 10.

⁹⁶ HAEU, BAC 97/1986/2, DG I, Note à l’attention de Monsieur le Directeur General Seeliger, Bruxelles le 17 juillet 1963.

⁹⁷ An Italian representative raised the issue of Yugoslav–EEC relations for the last time on the sidelines of the COREPER meeting on 24 April 1963. Italian action, however, was a result of West German support for Austria’s EEC association application, which Italy opposed for complex reasons (unlike Switzerland and Sweden, Austria renewed its request following de Gaulle’s veto of the British EEC application). HAEU, CM2/1963/93, Ausschuss der ständigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 254. Tagung, Brüssel, 23–25 April 1963, 3; DA MSP RS, PA, f-110, d. 5, 414566, Telegram Ambassade FNRIJ iz Brisela DSIP-u, 24 April 1963; Michael Gehler, “The Road to Brussels: Austria’s Integration Policy, 1955–72,” *Diplomacy & Statecraft* 13, no. 1 (2002): 165, 170-171.

National Assembly Committee for Foreign Affairs and International Relations proposed to the federal government to renew the request for trade consultations with the EEC. This action was supported by the Ministry of Foreign Affairs which in March decided to revise EEC policy. The following month, in April, the FEC Commission for External Relations suggested that Yugoslavia should resume diplomatic efforts to find accommodation with the Community directly after the end of the UNCTAD conference in June.⁹⁸ The Ministry of Foreign Affairs and the Ministry of Foreign Trade under the guidance of Minister for Foreign Trade Nikola Džuverović continued to work on the new policy proposal, and on 10 July they decided to request the FEC to adopt a decision authorising an initiative towards the Commission with the ultimate goal of launching trade negotiations with the EEC.⁹⁹ Finally, on 23 September the FEC approved the second Yugoslav approach to the Community.¹⁰⁰

The government envisaged a strategy for developing relations with the EEC that would progress in several stages. Exploratory talks were to serve as a basis for setting up a consultation mechanism between the two parties and opening negotiations over the trade agreement. The final stage would be the establishment of diplomatic relations.¹⁰¹ The decisive point was to persuade the Bonn government to change its policy on the issue of Yugoslav cooperation with the EEC. Indeed, the way for Bonn's position to shift was paved by Ludwig Erhard's replacement of Adenauer as Chancellor in October 1963 and the new West Germany conciliatory policy of "small steps" towards the Eastern European countries. Namely, Chancellor Erhard (1963-1966) and his foreign minister Gerhard Schröder pursued a policy of normalization of West German relations with Eastern European countries by opening up trade while at the same time continuing the policy of isolation of the GDR. The Yugoslav government welcomed the increased dialogue with the Bonn government, which began in February 1964 and resulted in a revision of the 1952 trade agreement signed in July.¹⁰²

The relaxation of relations with West Germany played an important role in the government's decision to approach the Commission. Still, Yugoslav policymakers were

⁹⁸ DA MSP RS, PA, f-179, d. 2, 415896, Telegram II. odeljenja DSIP-a Ambasadi SFRJ u Briselu, 13 March 1964; PA, f-179, d. 2, 410788, Telegram II. odeljenja DSIP-a Ambasadi SFRJ u Briselu, 11 April 1964; PA, f-179, d. 3, 426800 Telegram II. odeljenja DSIP-a Ambasadi SFRJ u Briselu: Mesečno pismo o problematici EEZ, 13 July 1964; PA, f-179, d. 3, 426800, Jugoslavija i Europska zajednica, 24 July 1964, 6-10.

⁹⁹ AJ SIV, 130, fascikla 345-507, Ekonomski odnosi SFRJ-EEZ, July 1964, 25-27.

¹⁰⁰ AJ SIV, 130, fascikla 345-507, Zapisnik sa 34. sednice SIV-a u užem sastavu, 23 Septembar 1964, 4.

¹⁰¹ DA MSP RS, PA, f-179, d. 4, 436347, Uputstva za rad ambasadi u Brislu, DSIP i SSST u vezi sa zaključcima sednice SIV od 23. septembra 1964. god, 25 September 1964.

¹⁰² Dušan Nećak, *'Ostpolitik' Willyja Brandta i Jugoslavija (1963.-1969.)* (Zagreb: Srednja Europa, 2015), 24-27, 111-113; AJ KPR, 837, I-5-b/82-5, Odnosi SR Nemačka - SFRJ, 29 August 1964, 1-3.

uncertain of the success of their initiative. Therefore, Koča Popović used the opportunity of the visit of Belgian foreign minister, Paul-Henri Spaak, to Belgrade in mid-October to ask for his support.¹⁰³ At the Belgian initiative, the Yugoslav request for trade consultations with the EEC from 1962 was examined at a COREPER meeting on 29 October. As West Germany agreed, the Commission was instructed on 4 November to open exploratory talks with Yugoslavia.¹⁰⁴ This new phase in the relationship with the EEC opened the way for Ambassador to Belgium, Stane Pavlič, who strongly advocated Yugoslavia's pro-active policy towards the EEC and early establishment of diplomatic relations, to start a consultation process with Commissioner Rey and General Director of DG I Wolfgang Ernst over the finer points of the talks.¹⁰⁵ Besides defining the technical details, the Commission agreed, at Yugoslav request, to keep these discussions to a low profile.¹⁰⁶

In January 1965, the exploratory talks between the Yugoslav delegation, led by Petar Tomić, Head of Department for Western Europe in the Ministry of Foreign Trade, and the delegation from the Commission, led by Ernst, began in Brussels. The consultations focused on three main issues: trade relations between the EEC and Yugoslavia, bilateral relations between Yugoslavia and the EEC member countries, and the impact of Community policies on the development and structure of Yugoslav trade.¹⁰⁷ The second round took place on 17–25 May in Brussels. Besides examining obstacles to the Yugoslav industrial and agricultural exports to the Community in more detail, the delegations also discussed the issue of industrial cooperation, EEC assistance in financing exports and problems of EEC exports to Yugoslavia.¹⁰⁸

Already before the second round of exploratory talks it was clear to the Yugoslav authorities that achieving a wide-ranging trade and economic cooperation agreement in the

¹⁰³ AJ KPR, 837, I-3-a/10-15, Zabeleška o razgovorima državnog sekretara za inostrane poslove Koče Popovića sa potpredsednikom vlade i ministrom inostranih poslova Belgije Pol Anri Spakom 16. oktobra 1964., 5-6.

¹⁰⁴ HAEU, BAC 97/1986/2, Commission, Secrétariat Exécutif, Note a l'attention de MM. les Membres de la Commission: Reunion du Comité des Représentants permanents du 29 Octobre 1964 – Relations avec la Yougoslavie, 31 Octobre 1964; BAC 97/1986/2, Commission, Secrétariat Exécutif, Note a l'attention de MM. les Membres de la Commission: Reunion du Comité des Représentants permanents du 4 Novembre 1964 – Relations avec la Yougoslavie, 5 Novembre 1964.

¹⁰⁵ In 1963 the Ministry of Foreign Affairs had appointed Stane Pavlič, a Slovenian economist, to Ambassador to Belgium, with the primary responsibility to inform about the EEC policies and actions which could affect Yugoslavia. DA MSP RS, PA, f-179, d. 1, 4519, Zaključci u vezi daljeg rada na problematici EEZ, 30 December 1963; PA, f-179, d. 4, 435963, Telegram Ambasade SFRJ iz Brisela DSIP-u, 4 September 1964; PA, f-182, d. 1, 438182, Telegram Ambasade SFRJ iz Brisela DSIP-u, 18 September 1964, 7-8.

¹⁰⁶ DA MSP RS, PA, f-179, d. 6, 447428, Telegram Ambasade SFRJ iz Brisela DSIP-u, 28 November 1964; PA, f-142, d. 5, 42082, Telegram Ambasade SFRJ iz Brisela DSIP-u, 14 January 1964.

¹⁰⁷ DA MSP RS, PA, f-142, d. 10, 446034, Izveštaj o pregovorima na nivou stručnjaka između SFRJ i Komisije EEZ, održanim u Briselu od 25-29 januara 1965, 15 February 1965, 1-3.

¹⁰⁸ DA MSP RS, PA, f-142, d. 8, 425090, Izveštaj o toku druge faze eksploratornih stručnih razgovora SFRJ-EEZ u Briselu od 17-25 maja 1965., 5 June 1965, 1-22.

short term was unrealistic, and instead they decided to first ask for tariff concessions for specific export products to the Community.¹⁰⁹ However, after these preliminary discussions Yugoslav–EEC relations once more reached a stalemate. The main reason was a new deterioration in relations between Yugoslavia and West Germany following Tito’s first official visit to the GDR in June 1965.¹¹⁰ West German diplomats described Tito’s visit as a provocation to the German people and argued it would help to strengthen the GDR’s position in international affairs.¹¹¹ Irritated by the Yugoslav policy and Tito’s criticism of West Germany and the Hallstein doctrine during the visit, the Bonn government reversed its earlier affirmative position on deepening of the EEC relations with Yugoslavia.¹¹²

Beside negative attitude of West Germany, Yugoslav efforts to reach an arrangement with the EEC were gravely affected by the outbreak of the “empty chair” crisis in July 1965.¹¹³ The French boycott of the Council of Ministers had an immediate impact on EEC relations with third countries as it brought Community institutions to a standstill. In September Ambassador Pavlič made it perfectly clear to Belgrade that under the new circumstances the Yugoslav initiative came to a dead end. He also counselled restraint in further diplomatic actions towards the EEC so as not to get caught up in internal disputes amongst member states and the Commission.¹¹⁴ While in the following months the Belgrade government indeed took no action towards the EEC, the new impasse in relations resulted in the Yugoslav turn to EFTA in September of 1965.

¹⁰⁹ The direct contacts with the EEC also had to facilitate economic and financial cooperation with the member states. DA MSP RS, PA, f-142, d. 6, 47585, Telegram DSIP-a ambasadama SFRJ u Parizu, Rimu, Hagu i predstavništvu SFRJ u Bonu, 5 March 1965.

¹¹⁰ Nećak, *‘Ostpolitik’ Willyja Brandta i Jugoslavija*, 116-117.

¹¹¹ AAPD, 1965, Band II, dok. 175, Aufzeichnung der Legationsrätin I. Klasse Rheker: Deutsch/Jugoslawische Gemischte Kommission, 9 April 1965, 696-697.

¹¹² German officials in the DG I already in February, and much more directly in May, cautioned that Tito’s visit might have implications on the Bonn government attitude towards the Yugoslav–EEC relations. DA MSP RS, PA, f-142, d. 5, 47432, Telegram Ambasade iz Brisela DSIP-u, 26 February 1965; PA, f-142, d. 7, 417582, Telegram Ambasade iz Brisela DSIP-u, 13 May 1965.

¹¹³ The crisis of the empty chair was launched by De Gaulle seemingly because of concerns about the CAP. In September, De Gaulle attacked the political ambitions of the Commission aimed at promoting supranationalism which he openly opposed. Piers N. Ludlow, *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge* (London and New York: Routledge, 2006), 65-73.

¹¹⁴ DA MSP RS, PA, f-142, d. 8, 432515, Analize krize EEZ i ocean eventualnih daljih akcija Jugoslavije, Brisel, 15 Septembar 1965, 10-11; PA, f-142, d. 10, 441980, Stanje i kretanja u Evropi “šestorice”, Brisel, 16. November 1965, 10-11.

3.2.1. Breaking the Deadlock: From West German to Italian Veto

By the end of 1965, Yugoslav policy circles were growing impatient with the seemingly interminable stalemate. They shared Ambassador Pavlič's view that the empty chair crisis was only a temporary setback in the process of European integration.¹¹⁵ With the Economic Reform underway, they were eager to make progress in relations with the Community. In that regard, the Belgrade authorities attached increasing importance to strengthening relations with Italy for two reasons. First, the cooperation with the Rome government became more attractive as Italian politics in 1962/63 turned leftward with the formation of the centre-left government led by the Christian-Democrat politician Aldo Moro (1963–1968).¹¹⁶ Second, while it was clear that the prospect of achieving any real progress in relations with West Germany was unlikely, Belgrade's efforts to establish closer relationship with France were also met with a cold reception in French policy circles.¹¹⁷ Thus, apart from being the leading trading partner, Italy now seemed tremendously important politically as a part of broader foreign policy agenda of seeking closer economic and political ties with Western Europe.¹¹⁸ The strongest proponent of this policy in the government was Marko Nikezić, the new foreign minister and close associate of Koča Popović who succeeded the latter after his resignation in April 1965.

Italy, despite a serious border dispute and the unsettled issue of Trieste, had significant economic and political interests in rapprochement with Yugoslavia. First of all, Yugoslavia had geo-strategic importance as a buffer state between Italy and the Warsaw Pact.¹¹⁹ Setting security interests aside, the emergence of détente and strengthening of Italy's international position in the early 1960s offered Moro's government more room to foster collaboration, in particular economic cooperation with Eastern European countries. Yugoslavia played an exceptionally important role in Italian Ostpolitik and therefore Rome was interested in strengthening political ties with Yugoslavia and supporting Belgrade's EEC

¹¹⁵ DA MSP RS, PA, f-142, d. 8, 432515, Analize krize EEZ i ocean eventualnih daljih akcija Jugoslavije, Brisel, 15 Septembar 1965, 6; PA, f-142, d. 8, 432515, Telegram DSIP-a Ambasadi SRFJ u Briselu: Operativno pismo o problematici EEZ, 1.

¹¹⁶ Karlo Ruzicic-Kessler, "Italy and Yugoslavia: from distrust to friendship in Cold War Europe", *Journal of Modern Italian Studies* 19, no. 5 (2014): 647.

¹¹⁷ Katarina Todić, *A Traditional Friendship? France and Yugoslavia in the Cold War World, 1944-1969* (PhD diss., McMaster University, Hamilton, 2015), 266-275; AJ KPR, 837, I-3-a/27-35, Odnosi SFRJ-Francuska, 1-2.

¹¹⁸ AJ KPR, 837, I-3-a/44-31, Italija, 30 October 1965, 16; KPR, 837, I-3-a/44-31, Podsetnik za razgovore sa predsednikom italijanske vlade Moro-om, 6 November 1965, 24-25.

¹¹⁹ Massimo Bucarelli, "A Late Friendship: Italian-Yugoslav Relations in the Second Half of the 20th Century (1947-1992)", *Tokovi istorije*, no. 3 (2012): 18.

policy.¹²⁰ The new atmosphere in bilateral relations resulted in the first official visit of Prime Minister Moro and Minister for Foreign Trade Bernardo Mattarella to Belgrade in November 1965. During their visit, the issue of Yugoslav–EEC relations was brought up by the Yugoslav side. In conversation with Tito, Moro affirmed Italian strong support for Yugoslavia in dealing with the EEC.¹²¹

Having waited more than six months, in January 1966 the Yugoslav government at long last decided to take steps and find way to break the impasse. During his visit to Belgium, Ambassador Pavlič organized a meeting between Minister Džuverović and Commissioner Rey at the Yugoslav Embassy. The next day, on 13 January, he met with Pierre Werner, Prime Minister of Luxembourg and the new President of the Council. At both meetings Džuverović underlined Yugoslav readiness to reach a trade agreement and establish diplomatic relations with the Community.¹²² Following Džuverović's initiative the Commission proposed on 24 January to discuss the particular issues under its exclusive authority.¹²³ The Belgrade government however considered that such a discussion could not address the main Yugoslav problems in trade with the Community, and at the same time might provoke negative reaction from France.¹²⁴

The Luxembourg compromise, an agreement arrived at in late January by the EEC member states which ended the empty chair crisis, finally opened the way for a renewal of broader Yugoslav efforts towards the EEC. The Belgrade authorities were now even keener to achieve some kind of special relationship with the EEC as a satisfactory agreement with EFTA proved unattainable and as they believed that the British government was considering a second bid to join the Community.¹²⁵ Even more important, in May the EEC member states reached an agreement on the financing of the CAP and decided to establish common industrial and agricultural markets (with the exception of wine) by 1 July 1968, a year and a

¹²⁰ Ruzicic-Kessler, "Italy and Yugoslavia", 646-647.

¹²¹ AJ KPR, 837, I-3-a/44-31, Zabeleška o razgovorima predsednika Tita s predsednikom ministarskog saveta Republike Italije Aldom Morom, 9 November 1965, 5.

¹²² DA MSP RS, PA, f-156, d. 2, 42199, Telegram Ambasade SFRJ iz Brisela DSIP-u, 16 January 1966; PA, f-135, d. 5, 47100, Ambasada SFRJ iz Brisela: Godišnji izvještaj o EEZ-u, January 1967, 20.

¹²³ HAEU, BAC 97/1986/2, Generaldirektion I, Vermerk für Herrn Direktor Ernst, Betrifft: Beziehungen zwischen der Gemeninschaft und Jugoslawien, Brüssel, den 14 Januar 1966; DA MSP RS, PA, f-156, d. 2, 43674, Telegram Ambasade SFRJ iz Brisela DSIP-u, 24 January 1966.

¹²⁴ DA MSP RS, PA, f-156, d. 3, 411434, Izvještaj Ambasade SFRJ iz Brisela: EEZ (situacija i naši odnosi), 21 March 1966, 8-9.

¹²⁵ DA MSP RS, PA, f-156, d. 3, 411434, DSIP, II uprava; Operativno pismo Ambasadi SFRJ u Briselu o problematici EEZ, 16 April 1966, 3.

half ahead of schedule. These developments underlined the urgency of opening negotiations on a trade agreement with the Community.¹²⁶

Matters, however, moved very slowly as the Community was preoccupied with the Kennedy Round negotiations and its own internal problems in the aftermath of the empty chair crisis.¹²⁷ Prompted by the Commission, COREPER decided finally on 6 May 1966 to discuss the 14 July 1965 report on the first two rounds of exploratory talks and entrusted the Trade Policy Committee to examine the possible modalities of trading relations between the Community and Yugoslavia.¹²⁸ After two sessions on 16 May and 17 June, at which the Italian delegation advocated a comprehensive trading arrangement with Yugoslavia while other delegations were in favour of unilateral tariff concessions for certain Yugoslav products, the Committee submitted a report to COREPER proposing a new round of exploratory talks.¹²⁹

At the beginning of July 1966 an internal political crisis, the downfall of Ranković, called for a much more serious consideration of the Yugoslav request than it had received in Brussels policy circles up to that point. The intra-party conflict between liberals and conservatives continued after the 8th Party Congress in 1964. Ranković, who strongly opposed the Economic Reform and decentralization of the political system, was relying on the secret police to enhance his power and ensure dominance in the post-Tito era. He also used his influence to obstruct implementation of the reform.¹³⁰ By the spring of 1966 Bakarić and Kardelj persuaded Tito to remove Ranković from his posts in the Yugoslav government and Party. With Tito's support they stripped him of all his official functions at the 4th Plenum of the Central Committee held in Brioni on 1 July. The fall of Ranković from power and

¹²⁶ DA MSP RS, PA, f-156, d. 4, 420604, Informacija o Sporazumu u Briselu od 11. maja 1966. godine o financiranju poljoprivredne politike i carinskoj uniji EEZ, 30 May 1966, 1-2, 4-5.

¹²⁷ The Commission officials underlined to Yugoslav diplomats at more occasions that in the short term there could be no discussion over Yugoslav-EEC relations. E.g. in March Ambassador Pavlič reported that Emile Noël, Executive Secretary of the Commission, emphasised poor prospect of the Commission dealing with Yugoslavia in 1966. DA MSP RS, PA, f-156, d. 3, 41012, Telegram Ambassade SFRJ iz Brisela DSIP-u, 16 March 1966.

¹²⁸ HAEU, CM2/1966/143, Ausschuss der staendigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 383. Tagung, den 6. Mai 1966, 10.

¹²⁹ HAEU, BAC 97/1986/2, Communauté Economique Européenne – Le Conseil, Note d'information, Objet: Relations entre la C.E.E. et la Yougoslavie, Bruxelles, le 23 juin 1966, 1-5; BAC 97/1986/2, Note à l'attention de M. le Ministre Rey, Objet: Relations entre la C.E.E. et la Yougoslavie Bruxelles, le 17 juin 1966, 1-2; DA MSP RS, PA, f-156, d. 4, 424786, Telegram Ambassade SFRJ iz Brisela DSIP-u, 28 June 1966.

¹³⁰ Opposition to the Economic Reform was strongest in Serbia and Montenegro. For example, in 1965 Čobeljić received the highest award from the Serbian government for lifetime achievement, Sedmojulska nagrada. Tito understood this as a political demonstration against the new economic policy. AJ 507, ACK SKJ, III/113, Stenografske beleške sa sednice IK CK SKJ, održane 12. i 13. novembra 1965., 13, 84-85.

purge of his closest associates marked an important watershed by clearing the way for the Economic Reform to go forward along with far-reaching changes in the political system and security apparatus.¹³¹

The whole affair underlined the political importance of the Yugoslav experiment for the West. Already in the early 1960s, US policymakers recognized the potentially profound implications of the liberal agenda for the future of Yugoslavia. As Kennan had explained to Kennedy in March 1961, “I thought it best for us to direct our principal hopes to the second generation of Yugoslav leaders, particularly the younger people in the echelon just under the top. I thought for various reasons that these people might be more amenable to an understanding of our point of view and less fearful of appearing to have normal and intimate relations with us.”¹³² The Western powers clearly had a strong interest in supporting the Economic Reform and the liberal faction, with its policy of moving Yugoslavia closer to a Western-style market economy and towards a more open and decentralized political system. The success of the reform would also presumably strengthen reformist forces in other Eastern European countries.¹³³ In November 1965 the ambassadors from NATO countries to Yugoslavia met in Belgrade to discuss the policy of the West towards Yugoslavia’s economic reform program. They underlined the need for a greater coordination of the NATO countries’ economic policies towards Yugoslavia and concluded that:

the West as a whole must have an interest in the success of the Yugoslav Economic Reform, since its possible failure, with the foreseeable consequence of returning to centralist–dictatorial methods in the economic system, would not be in the West's interest. The faster growth of the social product, exports and living standards that Yugoslavia has achieved with its specific “socialist market economy” compared to other Eastern European countries has had a major influence on triggering new economic reforms or enforcing existing ones in Eastern European countries. If the Yugoslavian attempt to orient an even greater proportion of its investment and

¹³¹ Sabrina Ramet, *Nationalism and Federalism in Yugoslavia, 1962-1991* (Bloomington and Indianapolis: Indiana University Press, 1992), 88-91; Jože Pirjevec, *Tito i drugovi* (Zagreb: Mozaik knjiga, 2012), 494-517.

¹³² FRUS, 1961-1963, Eastern Europe; Cyprus; Greece; Turkey, Volume XVI, Memorandum of Conversation, Washington, March 22, 1961, 186.

¹³³ AAPD, 1964, Band II, dok. 377, Gespräch des Bundesministers Schröder mit dem französischen Außenminister Couve de Murville in Paris, 9. Dezember 1964, 1465-1466; FRUS, 1964-1968, Eastern Europe, Volume XVII, Memorandum From the Under Secretary of State for Economic Affairs (Mann) to the President's Special Assistant for National Security Affairs (Bundy), Washington, July 22, 1965, 476-478; Ante Batović, “Od ekonomske reforme do Brijunskog plenuma – Američki i britanski izvještaji o Hrvatskoj (1964.–1966.),” *Historijski zbornik* 63, no. 2 (2010): 552-558.

foreign trade policies towards world markets in the wake of the present economic reform was to fail, the “liberal” tendencies in the economies of other Eastern European countries would also suffer a setback.¹³⁴

Thus, the West had a major interest in fostering trade and economic links with Yugoslavia in order to indirectly affect its internal economic and political development as well as to encourage reform efforts in other Eastern European countries. The Commission also followed the progress of reform with great interest. On several occasions, its officials opened this issue with Yugoslav representatives, most noticeably Commissioner Rey during the meeting with Minister Džuverović in January 1966, and General Director Ernst a few weeks later at the meeting with Zdenko Rajh, a leading Yugoslav expert in the field of European integration.¹³⁵ The sudden and surprising political crisis, however, raised concern in Brussels about the situation in Yugoslavia and the prospects of the Economic Reform. Immediately following the Brioni Plenum, Commission officials informed Ambassador Pavlič that under the changed circumstances the Yugoslav case was now high on the Community’s agenda.¹³⁶

Still, the attitude of the West German government remained the critical obstacle and the key to progressing Yugoslav relations with the EEC. In fact, in early 1966 Bonn and Belgrade began to cautiously improve their relations, largely due to the efforts of Minister Nikezić.¹³⁷ Yugoslavia reacted much more positively than other socialist countries to Erhard’s “peace note” of March 25.¹³⁸ Belgrade also reduced criticism of West German policies. However, the temporary thaw in Yugoslav–West German relations ended abruptly before the summer when news of Walter Ulbricht’s planned late September visit to Yugoslavia broke ahead of time. Although the Bonn government recognized the importance of the Yugoslav experiment as an example for other Eastern European countries, Ulbricht’s visit restored the primacy of the Hallstein doctrine in formulation of the West German policy

¹³⁴ AAPD, 1965, Band III, dok. 460, Legationsrat I. Klasse Bock, Belgrad, an das Auswärtige Amt, Betr.: Gewährung von Krediten, Moratorien und Wirtschaftshilfe an Jugoslawien durch westliche Industrieländer, 14. Dezember 1965, 1896.

¹³⁵ DA MSP RS, PA, f-156, d. 2, 42199, Telegram Ambassade SFRJ iz Brisela DSIP-u, 16 January 1966; PA, f-156, d. 3, 47692, Zabeleška o razgovoru sa Ernstom, direktorom za međunarodne trgovinske odnose u Ekonomskoj komisiji EEZ, 4. februara 1966. godine, 1-2.

¹³⁶ DA MSP RS, PA, f-156, d. 4, 426206, Telegram Ambassade SFRJ iz Brisela DSIP-u, 8 July 1966.

¹³⁷ Nećak, *‘Ostpolitik’ Willyja Brandta i Jugoslavija*, 117.

¹³⁸ A peace note declared West German’s peaceful intentions and offered nonaggression pacts to Eastern European countries. AJ KPR, 837, I-5-b/82-6, DSIP, Informacija o noti vlade Savezne Republike Nemačke od 25. marta 1966. god., 7 April 1966, 2-4; KPR, 837, I-5-b/82-6, DSIP, Informacija o reagovanju drugih zemalja na notu vlade SR Nemačke – Dopuna informaciji DSIP br. 412808 od 7.IV.1966.g., 18 May 1966, 1-5.

towards Yugoslavia.¹³⁹ For this reason, the Bonn government once more hardened its position and was now strongly against any kind of substantial Yugoslav–EEC trade consultations. As a result, at the meeting on 27 July COREPER decided to resume exploratory talks with Yugoslavia, but under the condition that “such discussions should in no case presuppose the possibility or the details of any subsequent agreement between the Community and Yugoslavia.”¹⁴⁰

The Yugoslav government reacted negatively to the Commission’s proposal to continue the exploratory talks. The government saw no reason to open a new round of technical consultations since all the main issues had already been discussed in the first two rounds. It also dismissed the Commission’s explanation that an additional round was necessary because the situation has changed due to the implementation of the Economic Reform. Furthermore, the Yugoslav side questioned the whole idea of further discussions without an end in view. Instead, in mid-October Belgrade decided to put pressure on the Commission and the other five member countries to support Yugoslavia’s request for trade negotiations.¹⁴¹ The government also urged the Commission to submit its 1965 report about the first two rounds of exploratory talks to the Council. The Commission, however, ignored the Yugoslav appeal and stressed that they should wait with trade negotiations until the end of the Kennedy Round as it would have a significant impact on the Yugoslav–EEC commercial relations.¹⁴²

Although Yugoslav authorities recognized that the Kennedy Round would lower customs barriers between the EEC and Yugoslavia, they were uncertain whether these negotiations would meet their expectations, especially regarding agricultural products. In addition, they considered that Yugoslav–EEC trade negotiations could be open to address issues not included in the Kennedy Round. But Ambassador Pavlič was convinced that the Commission was in fact searching for an excuse for yet another stalemate.¹⁴³ The disappointment within policy circles with one more delay led to re-examination of the Yugoslav strategy. Ambassador Pavlič was the main proponent of a new, different Yugoslav

¹³⁹ Nećak, *‘Ostpolitik’ Willyja Brandta i Jugoslavija*, 118-120.

¹⁴⁰ HAEU, CM2/1966/154, Ausschuss der staendigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 394. Tagung, den 25. und den 27 Juli 1966, 10.

¹⁴¹ DA MSP RS, PA, f-156, d. 5, 432232, DSIP, II uprava, Informacija o odnosima između SFRJ i EEZ, 17 October 1966, 1-3.

¹⁴² DA MSP RS, PA, f-156, d. 5, 436836, Telegram Ambasade SFRJ iz Brisela DSIP-u, 14 October 1966; PA, f-135, d. 4, 433, Telegram Ambasade SFRJ iz Brisela DSIP-u, 4 January 1967, 1-2.

¹⁴³ DA MSP RS, PA, f-135, d. 5, 47100, Ambasada SFRJ iz Brisela: Godišnji izvještaj o EEZ-u, January 1967, 24.

approach to the EEC. Already in the aftermath of the Luxembourg compromise, in March 1966, Pavlič raised the question of whether the government should pay more attention to relations with the member states instead of the Commission as the compromise strengthened the role of the Council of Ministers in the decision-making process at the Commission's expense.¹⁴⁴ Now he questioned whether the Commission was indeed an ally within the Community working to promote relations with Yugoslavia, as the Belgrade authorities believed to be the case.

Ambassador Pavlič argued that the Commission was careful not to antagonize West Germany when dealing with Yugoslavia for several reasons. First, some of the key Commission officials handling the Yugoslav case were Germans (Hallstein, Ernst etc.) and according to Pavlič they were most responsive to Bonn's concerns. Besides avoiding confrontation with the West German government, the Commission was not willing to bring proposals with slim chances of approval before the Council in order not to be discredited. Finally, without the forceful support of other member states, and with numerous other pressing issues, the Commission had little incentive to press for trade negotiations with Yugoslavia.¹⁴⁵

For these reasons Ambassador Pavlič suggested that even though the Commission had monopoly on policy initiation, Yugoslavia should focus its activities towards the Council as the ultimate authority with the power of decision. Consequently, in his view the government had to campaign for trade negotiations more actively at the highest political level in other five member states, in particular with the Belgium government which was holding the Council presidency starting from January 1967. The new policy also had to include a more pronounced public denunciation of the EEC discriminatory policies towards Yugoslavia. Even though such policy could sever relations with the Community and have negative economic consequences, Ambassador Pavlič argued that in the present circumstances when trade discrimination already affected the economy, this was an acceptable risk. The main goal of this approach was to put pressure on the Commission to take the Yugoslav request into consideration more seriously and ultimately to persuade, together with other member states,

¹⁴⁴ DA MSP RS, PA, f-156, d. 3, 411434, Izvještaj Ambasade SFRJ iz Brisela: EEZ (situacija i naši odnosi), 21 March 1966, 9.

¹⁴⁵ DA MSP RS, PA, f-135, d. 5, 47100, Ambasada SFRJ iz Brisela: Godišnji izvještaj o EEZ-u, January 1967, 24-25.

the West German government to reverse its negative position towards the Yugoslav–EEC trade negotiations.¹⁴⁶

Despite the Ministry's failure to affirm the new approach, Ambassador Pavlič emphasized Yugoslav discontent with the slow progress in Yugoslav–EEC relations at the meeting with General Director Ernst on 10 January. During the meeting, Ambassador Pavlič pointed out that he will recommend to the government to reconsider its policy towards the EEC. He also implied that Yugoslavia could turn directly to the Council instead of relying upon the Commission as an intermediate in dealing with the Community.¹⁴⁷ The ambassador's intervention resulted in a profound change of the Commission's inactive policy towards Yugoslavia. The Commission's altered approach was due to two factors. First, in the aftermath of the Luxembourg compromise, at the moment when the new Community's institutional setting was being consolidated, the Commission was anxious to secure its influence and at the same time to promote itself as an actor capable of influencing the policy-making process, especially within the Council.¹⁴⁸ Thereupon it can be argued that the Commission was concerned that, in case Yugoslavia directed its diplomatic efforts towards the member states and the Council, such a policy would undermine its position.

Second (and more importantly), the formation of the new West German government in December 1966, led by Kiesinger as Chancellor and SDP leader Willy Brandt as Deputy Chancellor and Foreign Minister, opened the way to improvement in Yugoslav–West German relations. Brandt, a fierce critic of the Hallstein doctrine, which was in any case becoming increasingly more difficult to maintain, initiated a radical re-conceptualization of West German foreign policy aimed at abandoning the doctrine and normalizing relations with Eastern European countries. The new policy of openness towards the East was implemented gradually and reached a high-water mark in the early 1970s, after Brandt became Chancellor in October 1969. Brandt's Ostpolitik also marked a turning point in relations between Bonn and Belgrade. Already in January 1967 the West German government opened the possibility

¹⁴⁶ DA MSP RS, PA, f-135, d. 5, 47100, Ambasada SFRJ iz Brisela: Godišnji izvještaj o EEZ-u, January 1967, 25-27; PA, f-135, d. 4, 433, Telegram Ambasade SFRJ iz Brisela DSIP-u, 4 January 1967.

¹⁴⁷ DA MSP RS, PA, f-135, d. 4, 433, Telegram DSIP-a Ambasadi SFRJ u Briselu, 7 January 1967; PA, f-135, d. 4, 41763, Telegram Ambasade SFRJ iz Brisela DSIP-u, 14 January 1967, 1-3; PA, f-135, d. 4, 41763, DSIP, II uprava, Zabeleška u vezi referisanja druga Pavliča o mogućnosti regulisanja odnosa SFRJ–EEZ, 27 January 1967, 1-3; HAEU, BAC 97/1986/5, Generaldirektion Auswärtige Beziehungen, Vermerk für Herrn Kawan, Brüssel, den 10. Januar 1967.

¹⁴⁸ Ludlow, *The European Community and the Crises of the 1960s*, 118-124; Michael J Geary, *Enlarging the European Union. The Commission Seeking Influence, 1961-1973*. (Basingstoke and New York: Palgrave Macmillan, 2013), 181-184.

of re-establishing diplomatic relations with Yugoslavia. Throughout 1967 relations warmed dramatically, and at the end of January 1968, following the secret negotiations in Paris, diplomatic relations were restored.¹⁴⁹

The change of atmosphere in relations between Bonn and Belgrade had a profound impact on Yugoslav–EEC relations. On 23 February 1967, when speaking to the German Foreign Press Association, Brandt made clear that his government would no longer block trade negotiations between Yugoslavia and the Community.¹⁵⁰ The Commission had in fact already suggested to the Council on 31 January that trade negotiations with Yugoslavia be opened after the completion of the Kennedy Round. Following the COREPER meeting of 22 February, the Council decided on 3 March that before reaching a final decision on the Commission's proposal, the Trade Policy Committee should first review the issue of a Yugoslav–EEC non-discriminatory trade agreement.¹⁵¹

In the following months both sides were preparing for trade negotiations. The Yugoslav Ministry of Foreign Trade and Ministry of Foreign Relations formulated positions in very short order, which were confirmed by the government on 13 April. The agreement had to take care of the problem of Yugoslav agricultural exports to the EEC, particularly beef, tobacco, fruit and vegetables (plums, grapes, paprika and tomatoes). It also had to ensure tariff concessions for industrial exports that were not included in the Kennedy Round negotiations, but were nevertheless of particular importance for Yugoslavia. Belgrade also wanted to ensure additional tariff concessions in the field of industrial cooperation in order to promote industrial exports. Finally, the agreement had to address the issue of the EEC clause in bilateral trading agreements with the member states.¹⁵² The major goal, besides concluding a trading agreement, was to establish a joint consultative body to further improve trade and economic cooperation. Regarding this, the government also established a separate

¹⁴⁹ Nećak, *'Ostpolitik' Willyja Brandta i Jugoslavija*, 120-157.

¹⁵⁰ DA MSP RS, PA, f-135, d. 5, 47990, Telegram Ambasade SFRJ iz Brisela DSIP-u, 28 February 1967.

¹⁵¹ HAEU, CM2/1967/139, Ausschuss der staendigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 415. Tagung, den 22. und den 23. Februar 1967, 11; HAEU, BAC 97/1986/5, Europäische Wirtschaftsgemeinschaft, Kommission, Bericht über die 210. Tagung des Ministerrats der EWG, 7. März 1967, 3-4.

¹⁵² DA MSP RS, PA, f-135, d. 6, 414736, Savezno izvršno veće, Informacija o odnosima SFRJ sa Evropskom ekonomskom zajednicom, 23 March 1967, 10-12; PA, f-135, d. 6, 414736, DSIP, Zabeleška u vezi sa primedbom druga Nikezića, 29 April 1967, 1.

Commission for Coordination of Cooperation between Yugoslavia and Western European Economic Organizations led by Toma Granfil.¹⁵³

The Community, on the other side, had a much more difficult task in reaching a common viewpoint on the negotiating mandate. After the Trade Policy Committee delayed formulating negotiation positions until September, COREPER asked the Commission to prepare a draft mandate.¹⁵⁴ Opposing interests of the member states were the main problem. While they managed to agree to negotiate a non-discriminatory and balanced trade deal directed at the reduction of tariffs and quantitative restrictions on Yugoslav industrial and textile exports, agricultural exports remained the main bone of contention. The Italian delegation, which was interested in securing imports of Yugoslav agricultural products to expand industrial exports to its market, strongly supported the Commission's favourable proposal to Belgrade. On the contrary, the French delegation, eager to defend its agricultural interests, argued against the Commission's proposal and eventually succeeded in excluding agriculture from the negotiating mandate.¹⁵⁵

Besides the conflicting interests of the member states, several additional developments distracted attention from Yugoslavia and prolonged the final decision on opening trade negotiations. At first, the EEC was still preoccupied with Kennedy Round negotiations, which ended in June. Then from May the second British application to join the Common Market dominated the Community agenda until the end of the year when De Gaulle finally vetoed it. On top of that, the merger of the Community institutions and a Franco-German dispute over the new Commission president also had an impact on their performance.¹⁵⁶ As a result, the Yugoslav issue was not the highest priority for the Community. At the same time, the Belgrade authorities were becoming increasingly impatient with the slow handling of their request for a couple of reasons. First, by October it became clear that the Economic Reform was not progressing as planned. Although from the outset the liberals had anticipated a difficult period of adjustment, a rapid decline of the rate

¹⁵³ DA MSP RS, PA, f-135, d. 6, 414736, Telegram DSIP-a ambasadi u Briselu: Naši odnosi sa EEZ, 14 June 1967.

¹⁵⁴ HAEU, CM2/1967/162, Ausschuss der staendigen Vertreter, Entwurf einer Kurzniederschrift über die Sitzung im engeren Rahmen anlässlich der 483. Tagung, den 27., den 28., und den 29. September 1967, Brüssel, 11-12.

¹⁵⁵ HAEU, BAC 97/1986/3, Communautés Europeennes, Le Conseil, Objet: Relations entre la C.E.E. et la Yougoslavie – Projet de mandat de négociations avec ce pays, Bruxelles, le 7 décembre 1967, 1-3; DA MSP RS, PA, f-135, d. 10, 443048, Kumulativna analiza stavova članica EEZ glede mandata koji razrađuju za pregovore sa Jugoslavijom i izgledi za našu akciju, 13 December 1967, 3-25.

¹⁵⁶ Ludlow, *The European Community and the Crises of the 1960s*, 126, 130-131.

of industrial growth, which was at the same time accompanied by a significant rise in unemployment and a sharp worsening of the hard currency deficit that reached USD455 million because of import liberalization introduced in 1967, raised serious concerns at the highest Party and government levels.¹⁵⁷ The situation was additionally worsened by the devaluation of sterling in November that had an adverse impact on Yugoslav exports to Britain and the EFTA.¹⁵⁸ Finally, the failure of the Kennedy Round to reduce barriers to trade in agricultural products and the continuation of the Community's protectionist (and to Yugoslav agricultural exports increasingly harmful) policies also left Belgrade policymakers feeling increasingly uneasy.¹⁵⁹

The deterioration in the economic situation was discussed at the joint meeting of the presidencies of the Party's Executive Committee and the Central Committee on 19 October 1967.¹⁶⁰ Following the meeting, the federal government prepared a set of measures to stabilize the economy. Particularly important for addressing the most urgent economic problem, the growing external deficit, were measures to promote exports to the convertibility area.¹⁶¹ A trading agreement with the EEC was crucial for the success of these measures and stabilization of the economy. Therefore, the government decided once more to urge the Commission and the member states to address the difficult Yugoslav situation in trade with the Community. It also gave the green light to the Ministry of Foreign Affairs to seek establishment of diplomatic relations with the EEC believing that this would strengthen the Yugoslav position vis-à-vis the Community.¹⁶²

Already at the first official meeting between the new Ambassador to Belgium, Miloš Lalović, and the recently named President of the Commission Jean Rey in October, former Commissioner for External Affairs, Lalović stressed the difficult situation that Yugoslavia

¹⁵⁷ AJ, 507, ACK SKJ, III/129, SIV, Zaključci o privrednim kretanjima u 1967. godini i elementima ekonomske politike u 1968. godini, 7 October 1967, 1-11; AJ KPR, 837, III-B-1-a, br. kut. 69, SSST, Informacija o robnoj razmeni sa inostranstvom u periodu januar-december 1967. godine, 4 January 1968.

¹⁵⁸ AJ KPR, 837, III-B-1-a, br. kut. 73 Narodna banka Jugoslavije, Informacija o devalvaciji engleske funte, 19 November 1967, 4-5.

¹⁵⁹ For example, on 1 July 1967 the EEC established a single market for pork. The increase of import levy on pig meat in October has significantly reduced export possibilities for Yugoslav producers. DA MSP RS, PA, f-135, d. 9, 435984, Telegram ambasade SFRJ iz Brisela DSIP-u, 19 October 1967; AJ SIV, 130, fascikla 415-648, Informacija o spoljnotrgovinskoj razmeni SFRJ sa konvertibilnim područjem Zapadne Europe u 1967. sa predlozima mera, 31 October 1967, 2-5.

¹⁶⁰ AJ, 507, ACK SKJ, III/129, Stenografske beleške sa VI. zajedničke sednice Predsedništva i IK CK SKJ, 19 October 1967.

¹⁶¹ AJ SIV, 130, fascikla 415-648, Zaključci o ekonomskim odnosima sa inostranstvom i o merama za podsticanje spoljnotrgovinske razmene u narednom periodu, 20 November 1967, 1-7; SIV, 130, fascikla 415-648, Zapisnik sa 35. sednice SIV-a, 22 November 1967, 11.

¹⁶² AJ SIV, 130, fascikla 656-1086, Izvod iz zapisnika sa 32. sednice SIV-a, 10 November 1967.

was facing.¹⁶³ As the Yugoslav diplomatic pressure intensified the COREPER finally reached a compromise decision on the negotiating mandate on 15 December.¹⁶⁴ Although the mandate left little space for addressing the problem of agricultural exports, Ambassador Lalović believed that it was broad enough to accommodate some of Belgrade's concerns.¹⁶⁵ However, the Ministry was perfectly aware that the EEC member countries had little political interest in providing substantial trading concessions to Yugoslavia.¹⁶⁶ Nevertheless, Belgrade policy circles anticipated the start of negotiations in February 1968.¹⁶⁷ For this reason a new astounding reversal of the Italian policy towards the issue of Yugoslav–EEC negotiations caught them completely off guard.

On 11 December, following De Gaulle's second veto of Britain's application to join the EEC, Minister of Foreign Affairs Fanfani announced at the Council meeting that Italy would oppose any further negotiations with Mediterranean countries, including Yugoslavia, as long as France continued to block British accession.¹⁶⁸ Indeed, the return of the British question again prompted a confrontation amongst member states. But unlike in 1963, now the other member countries were determined not to acquiesce in French opposition to British membership. Italy was particularly keen to bring Britain into the Community. Aside from the political argument of counterbalancing French political influence in the Community, Italy would benefit economically from British accession, while closer economic ties between the EEC and the Mediterranean countries threatened Italian agricultural exports.¹⁶⁹ By explicitly linking the issue of enlargement and EEC relations with Mediterranean countries, including Yugoslavia, the Italians were effectively acting as spoilers of the opening of trade negotiations.

¹⁶³ The Yugoslav government viewed the appointment of Jean Rey as Commission President positively. Belgrade considered that Rey had played a constructive role in formulation of the Community policy towards Yugoslavia as a Commissioner for External Relations. DA MSP RS, PA, f-135, d. 8, 436394, Zabeleška o razgovoru sa g. Jean Reyom, predsednikom Komisije EEZ, dana 20. oktobra 1967. godine; PA, f-135, d. 7, 420782, Telegram Amabsade SFRJ iz Brisela DSIP-u, 7 June 1967.

¹⁶⁴ HAEU, BAC 97/1986/3, Commission des Communautés Europeennes, 449eme reunion du Comité des Représentants permanents du 15 décembre 1967, Relations avec la Yougoslavie, 18 décembre 1967.

¹⁶⁵ DA MSP RS, PA, f-135, d. 10, 442266, Telegram Ambasade SFRJ iz Brisela DSIP-u, 12 December 1967.

¹⁶⁶ DA MSP RS, PA, f-135, d. 10, 443048, Kumulativna analiza stavova članica EEZ glede mandata koji razrađuju za pregovore sa Jugoslavijom i izgledi za našu akciju, 13 December 1967, 25.

¹⁶⁷ AJ KPR 837, III-B-1-a, br. kut. 68, Regionalni problemi naše spoljnotrgovinske razmene, 25 November 1967, 4.

¹⁶⁸ HAEU, CM2/1967/173, Europaeische Gemeinschaften, Der Rat, Protokoll über die Sitzung im engeren Rahmen anlässlich der 449. Tagung, den 13, 14 und 15. Dezember 1968, 9.

¹⁶⁹ Ludlow, *The European Community and the Crises of the 1960s*, 133-151; DA MSP RS, PA, f-140, d. 5, 48689, Telegram Ambasade SFRJ iz Londona, 4 March 1968, 2-3.

At first, Yugoslav policy circles voiced disbelief at Fanfani's statement. After the initial shock wore off, the government began to pursue a double strategy in overcoming the veto. Primarily, they put immense pressure on the Italian authorities to lift the veto and end the impasse. In a series of meetings with Italian diplomats, Yugoslav officials expressed astonishment and exasperation with the Italian policy.¹⁷⁰ Also at the highest political level the Yugoslav side urged Rome to change its policy. During a visit to Italy in January 1968, President of the FEC Mika Špiljak raised this issue and underlined the importance of the EEC trading agreement for Yugoslavia. In March, following advice from the Italian Ambassador to Belgrade, Folco Trabalza, Špiljak wrote to Moro again asking for Italian support.¹⁷¹ However, all their efforts to soften the Italian stance proved fruitless.

Besides pressing the Italian government to reverse its policy, Belgrade also took advantage of the West German government's offer to mediate a solution to the Italian veto.¹⁷² At the two-day meeting with Moro in Rome in early February, Chancellor Kiesinger unsuccessfully called attention to the impasse over the issue of Yugoslav-EEC trade negotiations.¹⁷³ After failure to address this problem in bilateral contacts with the Italian government, Bonn decided to open the Yugoslav question at the Council meeting on 29 February. Although the Commission, which was also highly critical of the Italian veto, endorsed the Bonn initiative, Fanfani remained resolute in opposing the opening of trade negotiations with Yugoslavia.¹⁷⁴

Italian diplomats were also annoyed by their government's policy. At first, they justified the veto to their Yugoslav counterparts as a necessary modification of strategy due to broader policy considerations. However, from February they quite openly criticized it as a short-sighted attempt by Fanfani to advance his position in upcoming parliamentary elections in May. Fanfani's calculation seemed to be that, electorally, a temporary setback in relations caused by disputes over trade issues and Trieste would be offset by the advantage of being able to mobilize Italian national sentiment to his benefit. Moreover, they were frustrated with

¹⁷⁰ E.g. AJ KPR, 837, I-5-b/44-13, Kabinet B. Šnuderla, Beleška o razgovoru vođenom 22. februara 1968. godine sa italijanskim ambasadorom Trabalza, 1-3.

¹⁷¹ AJ KPR, 837, I-5-b/44-13, Kabinet B. Šnuderla, Beleška o razgovoru vođenom 29. februara 1968. godine sa italijanskim ambasadorom Trabalzom na večeri kod ekonomskog ministra Gorge, 1-2; DA MSP RS, PA, f-140, d. 6, 48890, Telegram DSIP-a Ambasadama SFRJ u Parizu, Briselu i Bonu, 6 March 1968, 2.

¹⁷² AJ KPR, 837, I-5-b/82-8, SSST, Izveštaj o trgovinskim pregovorima između SFRJ i SRN održanim od 15. do 26. januara 1968. godine u Bonu, 7.

¹⁷³ DA MSP RS, PA, f-140, d- 5, 45420, Telegram Ambasade SFRJ iz Bona DSIP-u, 12 February 1968.

¹⁷⁴ HAEU, CM2/1968/5, Europaeische Gemeinschaften, Der Rat, Protokoll über die Sitzung im engeren Rahmen anlässlich der 24. Tagung des Rates, den 29. Februar 1968, 80.

the opportunity that the veto offered to West Germany to strengthen long-term relations with Yugoslavia at the expense of Italy.¹⁷⁵ Undoubtedly, the situation was profoundly ironic, even paradoxical. Italy, which had been the strongest supporter of trade negotiations with Yugoslavia, now blocked them, while West Germany, which had in the past hampered Yugoslav relations with the EEC, now supported Yugoslavia.

Despite the deadlock, Belgrade continued to pursue a policy of closer relations with the EEC. On 30 January the government officially requested establishment of diplomatic relations and the appointment of a Yugoslav Ambassador to the Community.¹⁷⁶ Finally, in the wake of Italian elections, the new government led by Giovanni Leone withdrew its opposition to Yugoslav–EEC trading negotiations.¹⁷⁷ After more than five and a half years since Yugoslavia had first established contacts with the EEC, on 30 July the Council authorized the opening of negotiations with Yugoslavia with a view to concluding a trade agreement.¹⁷⁸ Undoubtedly, the EEC negotiating mandate was the result of successful Yugoslav diplomacy and its pragmatic approach to the Community. But now the main task was to negotiate a favourable deal that would balance trade with the EEC countries, secure agricultural exports and ensure a greater diversification of industrial goods. The crucial problem was the lack of political will of the EEC member states to offer extensive trade concessions to Yugoslav imports. The Soviet intervention in Czechoslovakia, however, prompted the Community to reassess its trade policy towards Yugoslavia, as it fed Western concerns about the potential for a similar threat to Yugoslavia. EEC relations with Yugoslavia, once a peripheral issue, now topped the Community's foreign agenda. The new situation, in which the Cold War considerations played a major role, opened the road for Yugoslavia to negotiate a trade agreement and secure more favourable treatment from the Community. The Community even decided to make an exception in the case of Yugoslavia and accelerated the negotiation procedure.¹⁷⁹

¹⁷⁵ DA MSP RS, PA, f-140, d. 4, 499, Beleška o razgovoru člana SIV-a Tome Granfila sa italijanskim ambasadorom Folco Trabalza, dana 3. januara 1968. godine, 1-3; PA, f-140, d. 4, 44347, Telegram Ambasade SFRJ iz Brisela DSIP-u, 5 February 1968; PA, f-140, d. 6, 49902, Telegram Ambasade SFRJ iz Brisela DSIP-u, 11 March 1968.

¹⁷⁶ DA MSP RS, PA, f-140, d. 5, 44601, Telegram svim DK predstavništvima SFRJ, 12 February 1968.

¹⁷⁷ DA MSP RS, PA, f-141, d. 1, 426784, Zabeleška o razgovoru šefa kabineta državnog sekretara Z. Svetea sa otpravnikom poslova italijanske ambasade G. Folchiem, 24. jula 1968.

¹⁷⁸ HAEU, CM2/1968/40, Europaeische Gemeinschaften, Der Rat, Protokoll über die Sitzung im engeren Rahmen anlässlich der 45. Tagung des Rates, den 30. Juli 1968, 39.

¹⁷⁹ Ivan Obadić, "A Troubled Relationship. Yugoslavia and the European Economic Community in détente", *European Review of History* 21, no. 2 (2014): 340.

3.2.2. *Yugoslavia, the EEC and the Warsaw Pact Invasion of Czechoslovakia*

After the difficult period in the first part of the decade, by 1968 it seemed that Belgrade had managed to establish a viable and stable position in world affairs. Yugoslavia and the Soviet Union continued their friendly relationship despite the removal of Ranković and the Economic Reform which brought Yugoslavia economically closer to Western Europe. Nevertheless, the Soviets did not hide their annoyance at the direction of the Yugoslav reforms. They were even more upset with the dismissal of Ranković since it represented a heavy blow to the pro-Soviet conservative faction in the League of Communists of Yugoslavia.¹⁸⁰ Still, the Soviets could console themselves with the fact that Yugoslav foreign policy remained largely in line with Moscow's orientation. Indeed, in the period leading up to the Czechoslovakian crisis, it was the relationship with the Johnson Administration that Belgrade found most challenging.

The criticism of American intervention in Vietnam in 1965 was merely the trigger for a downward spiral in the Yugoslav–US relationship.¹⁸¹ Belgrade publicly blamed the US for the emergence of a staunchly anti-Communist Colonel's regime on its doorstep following the Greek military coup of April 1967. Tensions peaked in mid-1967 following the Arab–Israeli Six Day War. Tito was eager to give a strong support to Nasser, his close ally to help him out of the difficult situation in which he found himself. He was also afraid that the Greek Colonel's regime and the war in the Middle East were part of a broader US strategy that could threaten Yugoslavia's position as well. Tito therefore strongly condemned the Israeli attack on Egypt and launched an anti-American campaign by charging Washington with aggressive policy and imperialism. He also decided to break off diplomatic ties with Israel and even went to Moscow for the first time since the split with Stalin to take part in consultations of the party leaders from the Warsaw Pact countries regarding the situation in the Middle East. Finally, Yugoslavia also granted Moscow free passage of Soviet arms to Egypt across its territory.¹⁸²

¹⁸⁰ Milivoj Bešlin, *Pokušaj modernizacije u Srbiji 1968-1972. Između "revolucionarnog kursa" i reformskih težnji* (PhD diss., Univerzitet u Novom Sadu, Filozofski fakultet, 2014), 58-60.

¹⁸¹ Dragan Bogetić, "Početak vijetnamskog rata i jugoslavensko-američki odnosi", *Istorija 20. veka*, no. 1 (2007): 92-93, 102-115.

¹⁸² Dragan Bogetić, "Arapsko-izraelski rat 1967. godine i jugoslavensko-američki odnosi", *Istorija 20. veka*, no. 1 (2008): 102-106.

Although differing views on international issues and Tito's actions tested relations with Washington, the two countries nevertheless managed to maintain a stable bilateral relationship. The US continued to support Yugoslavia in line with long-term American objectives. The Yugoslav side also softened its positions largely due to opposition coming from Nikezić and top diplomats who considered Tito's policies detrimental to the vital national interest of establishing closer economic links with the US and Western European countries. The Ministry was for this reason seeking way to limit the harmful impact of the crisis in the Middle East on Yugoslav–US relations and advocated a more restrained foreign policy.¹⁸³

The Middle East crisis hence underlined the divergent lines of the Yugoslav foreign policy. In this period differences on fundamental foreign policy issues became painfully apparent as in late 1966, simultaneously with the discussion over the foreign trade strategy, the party leadership began to re-examine the orientation of Yugoslav foreign policy in light of the new situation created by the Economic Reform. While Tito was in favour of non-alignment as the basic principle of foreign policy, the liberals were pushing for a pro-European policy.¹⁸⁴ At the heart of their agenda was the Economic Reform. As Nikezić explained in a television interview in December of 1966, “rarely has our international position depended to such an extent and so directly on the success of our internal developments as is the case today; namely, on the success of our reform today.”¹⁸⁵ Since it was obvious that close economic cooperation with Western European countries was crucial for the success of the reform, they strongly advocated stronger political ties with these countries.

Along with economic reasons, political considerations also played an important role in their yearning for redefining the relationship with Western European countries. First, the European détente and political and economic reforms in other Eastern European countries affected the special status of Yugoslavia and to some extent diminished its importance for the Western powers.¹⁸⁶ Second, apart from economic deterioration of relations with the

¹⁸³ Ibid, 107-109.

¹⁸⁴ AJ, 507, ACK SKJ, III/124, Zapisnik sa 1. zajedničke sednice Predsedništva i IK CK SKJ od 07.12.1966., 83-86; ACK SKJ, IX, S/a-212, br. kut. 8, Stenografske beleške sa sednice Komisije CK SKJ za pitanja međunarodnih odnosa i međunarodnog radničkog pokreta održanog 12.01.1967., 29-30, 44.

¹⁸⁵ AJ KPR, 837, I-5-a/7, Aktuelni razgovori, TV intervju državnog sekretara za inostrance poslove Marka Nikezića, dana 22.12.1966., 1.

¹⁸⁶ AJ, 507, ACK SKJ, III/125, Stenografske beleške sa 2. zajedničke sednice Predsedništva i IK CK SKJ, održane 16.03.1967, 8.

developing countries, in the mid-1960s a number of events led to a weakening of the Non-aligned Movement: most importantly Nehru's death in 1964, and military coups against prominent Third World leaders; such as Indonesian president Sukarno, Algerian president Ben Bella and Ghana's leader Nkrumah. The Egyptian defeat in the Six Day War additionally undermined the movement as Nasser now became even more dependent on the Soviet Union.¹⁸⁷ The failure of the UNCTAD II in 1968 to achieve any tangible results regarding the trade preferences and international financing for the developing countries revealed how powerless these countries were in resolving the problems of their development at the international level.¹⁸⁸

Finally, although the US remained the undisputed leader of the Western world, by the mid-1960s Western European countries have regained much of their economic and political strength. De Gaulle's challenge to the Atlantic conception of Europe, most visibly manifested in pulling France out of NATO's integrated military structure in 1966 that aimed to strengthen independent Europe free from the tutelage of the US and Soviet Union, clearly indicated that, even when thinking in global context, Yugoslavia had to pay much more attention to Western Europe than previously.¹⁸⁹ The growing demands for redefinition of the Atlantic relationship and the increasing American disengagement from Europe, as it became more and more involved in the Vietnam War, underlined the political importance of the EEC which by then became in Yugoslav view a nucleus of united Western Europe. Kardelj, who also supported the "back-to-Europe lobby",¹⁹⁰ concisely illustrated their position on the new situation in Western Europe in following way:

In Western Europe things have changed so drastically that today we can no longer claim that the EEC exists just to preserve American positions in Europe. On the contrary, all the latest evidence shows that there are attempts to utilize the EEC, especially under the leading French influence, as a form of Western Europe's liberation from American economic pressure (...). In any case, I think that the EEC

¹⁸⁷ Tvrtko Jakovina, *Treća strana Hladnog rata* (Zaprešić: Fraktura, 2011), 56-60.

¹⁸⁸ AJ SIV, 130, fascikla 427-681, Izvještaj jugoslavenske delegacije o II UNCTAD, 16 April 1968, 5-7; AJ SIV, 130, fascikla 656-1086, Informacija o učešću SFRJ u aktivnosti međunarodnih ekonomskih organizacija: aktuelna situacija, 1 September 1969, 2.

¹⁸⁹ Already in 1964 the Ministry stressed the increasing importance of Western Europe for international position of Yugoslavia. AJ KPR, 837, Informacija DSIP-a o nekim aspektima odnosa SFRJ sa zemljama Zapadne Europe, 3 April 1964, 1-9.

¹⁹⁰ British diplomat in Belgrade Richard Kindersley portrayed in a minute of 19 July 1967 the pro-European faction within the Yugoslav foreign policy establishment as "back-to-Europe lobby." TNA, FCO 28/518, Belgrade to Foreign Office, 19 July 1967, 8.

is a historical phenomenon that we can no longer deny because the integration processes went faster than they themselves predicted (...). The problem now is whether this phenomenon will evolve in the direction of Western Europe independent of American economic hegemony or whether it will become its instrument. That is why it seems to me that all socialist forces in Europe, including the socialist countries, should pay attention whether they would influence the development of the EEC in one direction or another.¹⁹¹

The debate also became public when in October 1967 Jurij Gustinčić, a foreign editor of *Politika*, one of the most influential daily newspapers in Yugoslavia, published a commentary “Without illusions” on Yugoslav foreign policy. In his analysis Gustinčić criticized the illusions about Yugoslav power and influence in the world, and argued that Yugoslavia might acquire some real influence on the international scene if it balances its trade with Western Europe and becomes financially stable. He also pointed out that “for us, Yugoslavs, solvency requests that we attach greatest importance to the economic factors while pursuing our foreign policy. We must not be ashamed of the economy for moral reasons.”¹⁹² By highlighting the question of the dichotomy between the non-aligned and European aspects of Yugoslav foreign policy, and by promoting a closer cooperation with the developed Western European countries, Gustinčić has evoked a sharp criticism from the advocates of the non-aligned orientation who claimed that Yugoslav foreign policy should not be determined “according to a membership in the ‘poor man’s club’ or of the ‘the rich man’s club’, but with participation in efforts by the progressive forces of our times.”¹⁹³

Notwithstanding the tensions between these two poles of foreign policy, until mid-1968 Belgrade indeed got closer to Western Europe. To advance the idea of a more independent Western Europe and a more outward-looking Common Market, which was – in the Yugoslav view – important for the sake of Europe as a whole, the Ministry of Foreign Affairs in this period strongly encouraged East–West links within the European framework. In particular, it greatly supported the activities of the United Nations Economic Commission for Europe (ECE) in order to promote East–West cooperation and weaken the division of Europe into two economic blocs. To advance these important objectives, in 1968 the Yugoslav

¹⁹¹ AJ, 507, ACK SKJ, III/127, Stenografske beleške sa 4. zajedničke sjednice Predsjedništva i IK CK SKJ, 31.05.1967., 29-30.

¹⁹² Jurij Gustinčić, “Bez iluzija”, *Politika*, No. 4831, 4 October 1967, 36-37.

¹⁹³ “Naša prisutnost u svijetu”, *Komunist*, No. 4868, 16 November 1967, 57-59. The whole affair was closely observed by the British Embassy in Belgrade. TNA, FCO 28/519, “‘Without Illusions’: a press controversy on Yugoslav foreign policy”, Belgrade, 18 November 1967, 1-3.

government managed to get Janez Stanovnik appointed Executive Secretary of the ECE, as the successor to Vladimir Velebit.¹⁹⁴ Participation in a loose coalition of small aligned and neutral states from the Eastern and Western Europe – the so-called Group of Nine – also seemed as a promising field for diplomatic activity, as these countries promoted pan-European cooperation and multilateralization of détente within the framework of the UN and the Interparliamentary Union.¹⁹⁵ Finally, the policy of maintaining and developing friendly relations with Western European countries, which the government had been pursuing since the mid-1960s, was also an important part of the Yugoslav European policy. Indeed, after the re-establishment of diplomatic relations with West Germany in January 1968, Yugoslavia for the first time since the end of the war had cordial relations with almost all Western European countries (the exceptions being Franco's Spain and Salazar's Portugal), including all EEC member states.

But the true watershed in relations with Western Europe was the Warsaw Pact invasion of Czechoslovakia on 21 August 1968 and the declaration of the Brezhnev Doctrine. The intervention took the Yugoslav leadership by surprise. Tito was above all disillusioned by the Soviet decision to invade Czechoslovakia, especially as he had made every effort to persuade Moscow immediately prior the invasion not to intervene.¹⁹⁶ More importantly, the Yugoslav authorities were deeply concerned about a possible Soviet invasion as Yugoslavia had been a forerunner of the reform movement in Eastern Europe. The threat was even greater

¹⁹⁴ ECE was a particularly important organization for the Yugoslav government since it was the only pan-European institution that included all European countries apart from East Germany. Moreover, Belgrade had a strong influence in ECE as Vladimir Velebit was Executive Secretary from 1960 to 1968, and then Janez Stanovnik from 1968 to 1982. AJ KPR, 837, I-3-b/20, Informacija o Evropskoj ekonomskoj komisiji, 17 October 1961, 1-2; KPR, 1-3-b/20, Oko imenovanja druga Velebita za Izvršnog sekretara ECE-a, 17 October 1961; AJ SIV, 130, fascikla 660-1092, Informacija o suradnji Jugoslavije sa Evropskom ekonomskom komisijom (ECE) i priprema za 25. zasjedanje ECE, 30 March 1970, 5-7.

¹⁹⁵ The Group of Nine was formed by Bulgaria, Hungary, Romania, Belgium, Denmark, Holland, Austria, Finland and Sweden. See more in: Janie Leatherman, *From Cold War to Democratic Peace: Third Parties, Peaceful Change, and the OSCE* (Syracuse, NY: Syracuse University Press, 2003), 69-74; AJ, 507, ACK SKJ, III/125, Konferencija predstavnika evropskih parlamenata, 16 February 1967, 1-4; ACK SKJ, III/125, Aide Memoire o unapređenju saradnje evropskih zemalja, 1967, 1-4; ACK SKJ, III/125, Informacija o problemima saradnje i bezbednosti u Evropi, 13 March 1967, 1-2, 13-15.

¹⁹⁶ Tito explicitly expressed his deep disappointment with the Warsaw Pact intervention at the meeting with the Soviet Ambassador Benedetov on 30 August in Belgrade. At the meeting, he said that it hurts him as a communist that this decision was taken as it will have grave consequences on the world Communist movement. AJ KPR, 837, I-3-a/101-108, Zabeleška o prijemu sovjetskog ambasadora kod predsednika Tita, 30 August 1968, 8-12.

as the increased Soviet military build-up in the Mediterranean, starting after the Six Day War, made Yugoslavia's geostrategic position even more valuable for Moscow.¹⁹⁷

Under the new circumstances, besides vigorously condemning the invasion of Czechoslovakia, Belgrade created an informal defence alliance with Rumania, which pursued a relatively independent foreign policy and was thus also threatened by the Soviet invasion. Yugoslavia also improved relations with Soviet arch enemy China and its close ally Albania.¹⁹⁸ The non-aligned countries, however, failed to give a support to Yugoslavia as many of them did not want to jeopardize their close relations with the Soviet Union. Tito in particular was disappointed with the lack of support from Nasser.¹⁹⁹ But the crucial issue for Yugoslav policymakers was securing support from the West. Indeed, they were to discover in 1968 precisely how crucially dependent Belgrade was on Western support for its independence when threatened by the Soviet Union. This would have a decisive impact on the development of Yugoslav European policy in the subsequent period. As British Ambassador to Yugoslavia Terence Garvey observed in his annual report for 1968, "In Czechoslovakia Russians have done more to justify and accelerate the 'Westernization' of Yugoslavian positions than Western arguments could have accomplished in ten years."²⁰⁰

The Warsaw Pact invasion marked a significant modification as well in the policy of the West towards Yugoslavia. Western powers were also surprised by the Soviet decision to crush the Prague Spring.²⁰¹ In the aftermath of the invasion they were gravely concerned about a possible invasion of Romania and Yugoslavia. The Soviet threat to Belgrade made the Western policymakers exceptionally anxious as occupation of Yugoslavia would profoundly affect the power balance in the Balkans and the Mediterranean and was for this reason unacceptable to NATO. The main dilemma of both Western and Yugoslav policymakers was whether the invasion of Czechoslovakia was a conservationist policy designed to prevent radical changes in Eastern Europe and preserve the status quo in Europe or was it a part of a

¹⁹⁷ Dragan Bogetić, "Jugoslavensko-američki odnosi u svetlu vojne intervencije u Čehoslovačkoj 1968.," *Istorija 20. veka*, 2 (2007): 80.

¹⁹⁸ Tvrтко Jakovina, "Jugoslavija, Hrvatsko proljeće i Sovjeti u detantu", *Kolo* 15, no. 4 (2005): 159-160.

¹⁹⁹ Jakovina, *Treća strana Hladnog rata*, 65-66; Hrvoje Klasić, *Jugoslavija i svijet 1968.* (Zagreb: Naklada Ljevak, 2012), 425-426.

²⁰⁰ TNA, DEFE 13/707, Yugoslavia: Annual Review for 1968, 16 January 1969; as quoted in Klasić, *Jugoslavija i svijet 1968.*, 407.

²⁰¹ Geraint Hughes, "British policy towards Eastern Europe and the impact of the 'Prague Spring', 1964-68," *Cold War History* 4, no. 2 (2004): 126.

broader expansionist Soviet policy that included penetration into both the Mediterranean and Middle East.²⁰²

While Romania was a member of the Warsaw Pact and belonged to the Soviet sphere of interest, Yugoslavia was a totally different ball game. An attack on Yugoslavia would therefore mean a radical shift in Soviet policy from a conservationist one designed to keep the Warsaw Pact under control, to an expansionist one.²⁰³ In September the Western powers began to make contingency plans in the event of Soviet aggression against Yugoslavia. On 4 September, German Chancellor Kiesinger discussed the Soviet threat to Romania and Yugoslavia at a meeting with US Ambassador Cabot Lodge, and made perfectly clear that “in this critical situation, wise and firm leadership by the United States is indispensable.”²⁰⁴ The British government as well decided to approach Washington to coordinate their policies towards the possibility of a Soviet attack.²⁰⁵

By early October, following secret discussions between the representatives of the State Department and the British Embassy in Washington, the American and British governments reached the conclusion that a Soviet invasion was unlikely. French and West German policymakers were of the same opinion.²⁰⁶ Still, they deemed it wise to issue a strong warning to the Soviets that would reaffirm the Western commitment to Yugoslavia’s independent position. Indeed, at the insistence of US Secretary of State Dean Rusk at the November NATO meeting, and after Brezhnev declared his doctrine on 12 November, the alliance issued a warning stating that Yugoslavia (and Austria) belonged to the grey zone included in the security sphere of NATO. Any Soviet action against Yugoslavia would thus present a far more serious challenge to stability in Europe than crushing the Prague Spring.²⁰⁷

But at that moment it was clear both to the Western and Yugoslav policymakers that Moscow’s aimed at maintaining the status quo, rather than challenging the Cold War order in Europe. While the immediate Soviet military threat to Yugoslavia had diminished, the uncertainty about the possible long-term Soviet ambitions towards Adriatic Sea worried the

²⁰² Dragan Bogetić, *Jugoslovensko-američki odnosi 1961-1971*. (Beograd: Institut za savremenu povijest, 2012), 265–267.

²⁰³ TNA, FCO 28/559, A Soviet Threat to Yugoslavia, September 1968, 4.

²⁰⁴ AAPD, 1968, Band II, dok. 280, Gespräch des Bundeskanzlers Kiesinger mit dem amerikanischen Botschafter Cabot Lodge, 4. September 1968, 1087.

²⁰⁵ TNA, FCO 28/559, Discussion between the Prime Minister with the Foreign Secretary and the Defence Secretary about the eventual Soviet threat to the Yugoslavia, 6 September 1968.

²⁰⁶ AAPD, 1968, Band II, dok. 312, Gespräch des Bundeskanzlers Kiesinger mit Staatspräsident de Gaulle, 27. September 1968, 1205.

²⁰⁷ AAPD, 1968, Band II, dok. 280, Runderlaß des Ministerialdirektors Ruete, 18. November 1968, 382.

Western powers. The economic and political stability of the country was therefore crucial in preserving its integrity and independent position.²⁰⁸ Also, as Yugoslavia was facing a substantial increase in expenditure for defence as well as renewed Soviet economic pressure, commercial and financial relations with the West were now even more decisive for success of the Economic Reform and consolidation of Yugoslavia's internal economic situation and international position.

The US played a major role in framing the Western policy towards Yugoslavia in the aftermath of the Czechoslovak crisis. But Washington had limited possibilities to sustain the Yugoslav economy. Primarily, the US government could provide financial assistance to Belgrade by securing new credits through the Export-Import Bank, the IMF, and the World Bank as well as by rescheduling debt payments and promoting private US investment in Yugoslavia. But the crucial role in addressing the Yugoslav economic woes with the West belonged to the EEC. The issue of the Yugoslav-EEC relations was already opened during Deputy Prime Minister Kiro Gligorov's visit to Washington at the beginning of October.²⁰⁹ Two weeks later the US Under-Secretary Nicholas Katzenbach, during his tour of Western Europe, visited Belgrade to show American support to Yugoslavia. At the meeting with Katzenbach on 18 October, Tito drew attention to Yugoslavia's interest in stronger economic ties with the West, but also underlined significant problems that the country was facing in trade with the EEC. Tito stressed that "endorsement of Yugoslav requests in relation to the EEC represents the best and only necessary assistance at the moment."²¹⁰ Katzenbach, who had previously visited Brussels and met with President of the Commission Jean Rey to discuss Yugoslav-EEC relations, reassured Tito that the EEC would be favourably disposed in addressing these issues.²¹¹

²⁰⁸ Bogetić, *Jugoslovensko-američki odnosi 1961-1971.*, 270-271.

²⁰⁹ During the visit Gligorov discussed the issue of debt rescheduling. In December, the US government decided to stretch Yugoslav payments over a longer time frame and to urge Italy and West Germany to accommodate Belgrade on this issue as well. *Ibid.*, 271-272, 277-278.

²¹⁰ AJ KPR, 837, I-3-a/107-170, Zabeleška o razgovoru Predsednika Tita sa državnim podsekretarom SAD-a g. Nikolasom Kacembahom, 18. oktobra 1968., 16.

²¹¹ *Ibid.*, 17.

3.2.3. Negotiating the First Trade Agreement in the Aftermath of the Prague Spring

The EEC indeed had vital interests in supporting economic and political stability of Yugoslavia. As Commission officials disclosed to Ambassador Lalović at the beginning of October, under the new circumstances Yugoslav relations with the EEC became the second most important political issue, next to the question of British accession to the Community.²¹² Beside the immediate concern about the Soviet threat to Yugoslavia, the Commission also considered a trade agreement with Belgrade important for EEC relations with other Eastern European and Third World countries.²¹³ First step towards the trade negotiations was the establishment of diplomatic relations on 26 September. As the first Yugoslav Ambassador to the EEC, Miloš Oprešnik, presented diplomatic credentials to the Commission President Rey and Lorenzo Medici, the Italian Foreign Minister and acting President of the Council Medici accentuated that “the Council will consider on the broadest basis, in accordance with the interests of the Community, the opportunity to find in the foreseeable future a solution for the Yugoslav problems that at the present moment have much wider, and not only economic, significance.”²¹⁴

Despite common political interest to support Belgrade, reaching a consensus regarding the EEC trade policy towards Yugoslavia among the member states and the Commission was a difficult task. Already the meeting on 2 October between the Commission and COREPER indicated immense differences within the Community. While the Commission was pushing for a more wide-ranging mandate ahead of a trade negotiations which would include the most important issue of Yugoslav agricultural exports, the member states could not reach unity on this issue.²¹⁵ The opening of the formal negotiations showed, however, that the Yugoslav government was not willing to conclude an agreement that would not cover agriculture.

Already in May 1968 Belgrade redefined its negotiating positions from April 1967 due to the changed circumstances – the completion of the Kennedy Round, introduction of the common external tariff, and increased agricultural protectionism as the CAP was by then almost fully implemented. For these reasons, the government expected that the agreement would cover two main areas of trade: first, agricultural exports covered by the CAP, and

²¹² DA MSP RS, PA, f-141, d. 3, 436049, Telegram Ambassade SFRJ iz Brisela, 1 October 1968.

²¹³ Benedetto Zaccaria, *The EEC's Yugoslav Policy in Cold War Europe, 1968-1980* (London: Palgrave Macmillan, 2016), 35–36.

²¹⁴ DA MSP RS, PA, f-141, d. 3, 434938, Telegram Ambassade SFRJ iz Brisela, 27 September 1968.

²¹⁵ Zaccaria, *The EEC's Yugoslav Policy in Cold War Europe*, 34.

second, tariff concessions for other agricultural commodities and industrial products.²¹⁶ Regarding industrial products, the government insisted on accelerated implementation of the Kennedy Round tariff concessions and additional concessions in the field of industrial cooperation. Concerning agricultural products, Belgrade focused on some of the most important exports, including veal and beef meat, maize, pork meat, tobacco, wine, seeds and processed fruit and vegetable products.²¹⁷

As already explained, veal and beef meat were among Yugoslavia's crucial exports to the EEC, mainly to Italy. However, introduction of the CAP regulation for beef in May 1968 crippled Yugoslav exports as they now faced not only import duty, but also a variable levy that raised the price of imports to the level of the internal guaranteed price. As a result, beef exports decreased by 30 per cent in the following months. Because of the strong protests by the Belgrade government, the Commission organized unofficial consultations in early June aiming to alleviate some of the effects of the protective and discriminatory tariffs, but they failed to achieve a solution satisfactory for the Yugoslav side.²¹⁸ Now, as the Soviet invasion of Czechoslovakia strengthened Yugoslav's bargaining leverage, Belgrade decided to take advantage of this situation. During the first round of negotiations from 15 to 18 October 1968, Minister for Foreign Trade and Head of the Yugoslav delegation, Toma Granfil, underlined that Yugoslav export of beef to the Community would be the central issue in the negotiations.²¹⁹

Jean-François Deniau, the Commissioner for External Trade, whose Directorate-General was responsible for conducting trade negotiations, was perfectly aware that the price of failure to complete the negotiation of a trade agreement was unacceptable for the EEC because of the political interest of the West in supporting Yugoslavia. As he bluntly commented to Granfil, "failure to reach a trade agreement would be catastrophic."²²⁰ Because of the delicate Yugoslav position the Commission decided to request the Council broaden the scope of its negotiating mandate by including agricultural products as well. But during the

²¹⁶ AJ SIV, 130, fascikla 429-688, Informacija o pripremama i predlozima za pregovore između SFRJ i EEZ, 13 May 1968, 20-21, 31-32, 39-40, 51-55.

²¹⁷ Ibid, 24-42.

²¹⁸ AJ SIV, 130, fascikla 706-1158, Informacija o predlogu Komisije EEZ za regulisanje nekih pitanja od interesa za izvoz jugoslavenskih poljoprivrednih proizvoda u EEZ, 24 April 1968, 1-5; SIV, 130, fascikla 658-1089, Izveštaj o informativnim razgovorima SFRJ-EEZ o problemima izvoza poljoprivrednih proizvoda, Brisel, 5-7 June 1968, 1-2.

²¹⁹ Obadić, "A Troubled Relationship", 340.

²²⁰ DA MSP RS, PA, f-141, d. 4, 437654, Telegram Ambassade SFRJ iz Brisela, 21 October 1968.

Council meeting on 4 November France blocked the expansion of the Commission mandate.²²¹

The French government raised an objection to the Commission's proposal since it would demand concessions from French farmers, who, capitalizing on the overall shortage of this product in the Community markets, diverted their efforts to increasing beef production as the most promising agricultural sector. Furthermore, since Yugoslavia was the third-largest beef exporter to the EEC behind Denmark and Argentina, Paris was afraid that by making concessions to Belgrade the Community would set a precedent upon which other cattle-producing countries could rely upon in future trade negotiations. Finally, the French government was concerned about repercussions of making exceptions from the CAP provisions just when there was a wider debate about the plan for reform of the agricultural sector launched by Commissioner for Agriculture, Sicco Mansholt.²²²

The French veto led to a stalemate in the negotiations. While this situation was obviously problematic for the Yugoslav government, other member states and the Commission were also dissatisfied with the French policy. The French view, summarized in a comment by a French diplomat that it is "too much of an exaggeration to say that the question of Russian threats can be solved with beef,"²²³ was dismissed by other Community actors who insisted on some kind of compromise. Amongst the member states, the Italian and West German governments were the strongest supporters of this policy. In the aftermath of the Czechoslovakian crisis, Italy had vital strategic reasons to support independent and non-aligned position of Yugoslavia. Immediately after the invasion, on 2 September, the Italian government notified Belgrade in a secret note that Yugoslavia could without risk redeploy its military forces from its border with Italy to its eastern borders.²²⁴ The Belgrade authorities highly appreciated this political act since at that moment the true intentions of Moscow towards Yugoslavia were still unclear. During his visit to Belgrade in May 1969 Italian Minister for Foreign Affairs Pietro Nenni highlighted the new closeness in relationship between two countries by saying to a recently appointed Yugoslav Minister for Foreign Affairs, Mirko Tepavac, who replaced Nikezić when he became the President of the League

²²¹ HAEU, CM2/1968/48, Europaeische Gemeinschaften, Der Rat, Protokoll über die Sitzung im engeren Rahmen anlässlich der 51. Tagung des Rates, den 4. November 1968, 39-40.

²²² AJ SIV, 130, fascikla 658-1089, Izvještaj o održanim razgovorima šefova delegacija SFRJ i EEZ Tome Granfila i Jean-François Deniau-a, 25 December 1968, 15-16.

²²³ As quoted in Saša Mišić, "Jugoslavensko-talijanski odnosi i čehoslovačka kriza 1968. godine.", In *1968. Četrdeset godina posle*, ed. Radmila Radić (Beograd, Institut za noviju istoriju Srbije, 2008), 308.

²²⁴ AJ KPR, 837, I-5-b/44-13, Telegram Ambasade SFRJ iz Rima, 2 September 1968, 2.

of Communists of Serbia, that in the case of Soviet attack “the Yugoslav eastern border would become the Italian eastern border.”²²⁵ The same message was conveyed during the visit of President Giuseppe Saragat to Tito in October 1969.²²⁶

The Bonn government had strong economic and political reasons to support signing of a comprehensive Yugoslav–EEC trade agreement as well. 1968 was indeed a turning point in West German–Yugoslav relations. Following the establishment of diplomatic relations, ties between two countries began to intensify. By 1969 West Germany again became Yugoslavia’s main trading partner. The political rapprochement was much faster and more far-reaching than most people had expected. Brandt’s visit to Yugoslavia in June 1968 was an important milestone in this process. At the meeting with Tito at Brioni, among many other issues, the two leaders extensively discussed the Yugoslav–EEC relations. On this occasion Brandt also expressed his government’s commitment to finding an appropriate solution for Yugoslav problems with the Community.²²⁷ For Brandt, relations with Belgrade were particularly important as Yugoslavia played an important role in launching his Ostpolitik.²²⁸ But it was the Czechoslovakian crisis that contributed most to accelerating the pace of rapprochement.

Since the views between the Five and France were deeply divided over the Commission’s mandate for negotiations with Yugoslavia, at the meeting on 4 November the Council decided that the COREPER should further examine the matter. Two days later the Commission also instructed the DGs for Agriculture and External Trade to find a practical solution acceptable to all member states. By 26 November the Commission proposed to the Council that an arrangement, which would provide for imports of specific categories of Yugoslav beef at a reduced levy, would ensure greater financial revenues for Belgrade while at the same time would not have significant effects on the common market for agricultural products.²²⁹ The French government, however, remained resolute in its opposition to any kind of special arrangements that would establish a precedent and thereby endanger the CAP.²³⁰

²²⁵ AJ KPR, 837, I-3-a/44-43, Razgovori “u četiri oka” sa Nenijem, 1; KPR, 837, I-3-a/44-43, Razno, 1.

²²⁶ AJ KPR, 837, I-3-a/44-46, Izvještaj o posjeti Predsednika Republike Italije Djuzepe Saragata SFRJ, 22 October 1969, 1-7.

²²⁷ AJ KPR, 837, I-3-a/83-19, Razgovor Predsednika Republike sa Willijem Brandtom, 15 June 1968, 2-3.

²²⁸ Nećak, *‘Ostpolitik’ Willyja Brandta i Jugoslavija*, 158-159, 231-236.

²²⁹ Zaccaria, *The EEC’s Yugoslav Policy in Cold War Europe*, 37-39.

²³⁰ HAEU, CM2/1968/52, Europaeische Gemeinschaften, Der Rat, Protokoll über die Sitzung im engeren Rahmen anlässlich der 54. Tagung des Rates, 9–10. Dezember 1968, 119-120.

By then it became clear that the negotiation deadlock could be only resolved at the highest political level. In the following months Minister Granfil made a tour of the European capitals – Rome, Bonn and Paris – to lobby their governments to find a favourable solution for Yugoslav beef exports.²³¹ Also, in December Commissioner Deniau visited Belgrade to meet with Minister Granfil and Deputy Prime Minister Gligorov. At the meeting with Granfil on 17 December, Deniau suggested that a preferential trade agreement would provide a satisfactory solution regarding beef exports for both Yugoslavia and the Community.²³² The idea of a preferential trade agreement seemed as an elegant way out of a difficult situation to the French government as well. In January 1969, a Yugoslav delegation led by Prime Minister Špiljak visited Paris. The Yugoslav–EEC negotiation deadlock was one of the main topics of discussions. At the meeting between Prime Minister Špiljak and President De Gaulle on 16 January, De Gaulle favoured the solution for the problem of Yugoslav beef exports on a preferential basis.²³³

Belgrade, however, insisted on a non-preferential agreement because the government considered that the discriminatory nature of preferential agreements would discredit the Yugoslav policy of non-alignment among the Third World countries. At the same time the government considered that a preferential agreement would compromise the country's independent position as it would anchor Yugoslavia too strongly to Western Europe. This decision was also based on the estimation that Yugoslav participation in the EEC Generalised scheme of preferences (GSP), which was at the time being discussed in international forums as the Community laid out first proposal for such a scheme, would compensate the effects of a non-preferential agreement. Moreover, there were concerns that a preferential agreement with the EEC could endanger Yugoslav participation in the GSP programme.²³⁴

Faced with the increased pressure from Yugoslavia as well as other member states, on 22 January the French government presented a draft of a negotiating mandate at COREPER regarding Yugoslav beef exports. The French proposal, however, only marginally addressed the problem as it only covered exports of young cattle and specific mountain breed “Boucha” – products which Yugoslavia sold to the Common Market in very small quantities. The

²³¹ DA MSP RS, PA, f-141, d. 8, 48506, Svim DK predstavništvima SFRJ, 17 March 1969, 2.

²³² AJ SIV, 130, fascikla 658-1089, Izvještaj o održanim razgovorima šefova delegacija SFRJ i EEZ Tome Granfila i Jean-François Deniau-a, 25 December 1968, 2-3, 7.

²³³ AJ KPR, 837, I-5-b/28-11, Zabeleška o razgovoru Predsednika Francuske Republike, generala De Gola, sa Predsednikom SIV-a, drugom Mikom Špiljakom, u Parizu, 16 January 1969, 7.

²³⁴ Obadić, “A Troubled Relationship”, 340-341.

Commission and other member states therefore dismissed this proposal outright.²³⁵ Instead of salvaging the situation, Paris in fact annoyed other member states even more, as it once again showed no willingness to compromise on an issue important for the whole Community. Their indignation with French obstructionism was clearly expressed at the Council meeting on 27 January 1969.²³⁶ Some EEC political figures even began to publicly criticize the French policy.²³⁷

But even French policymakers were deeply divided over this issue. The foreign policy establishment and Minister for Foreign Affairs, Michel Debré, argued that France would have to find a middle ground in relation to Yugoslav beef exports for political reasons. On the other hand, Minister for Agriculture, Robert Boulin, refused to make any concessions as this would weaken French arguments in the ongoing debate about the Mansholt Plan and because the Yugoslav case would establish an unwanted precedent.²³⁸ The split over the issue of negotiating mandate with Yugoslavia was a direct consequence of the way how the Community system operated. As Ludlow points out, by the mid-1960s EEC affairs had become a highly specialized policy area in most member state governments. In the Community environment, foreign policy concerns were often outweighed by other interests advocated by different ministries.²³⁹ Obviously, the same situation occurred in the formulation of the French policy towards the Yugoslav–EEC trade negotiations. By late March the situation finally reached the point that only the Prime Minister, Maurice Couve de Murville, could break ground on this issue and make a compromise decision which would enable the continuation of negotiations.²⁴⁰

At that moment, however, France entered a period of heightened political instability due to the constitutional referendum on governmental reform which was to be held on 27 April. As the government did not want to provoke influential farm lobby groups before the referendum, it postponed the decision on the Commission's negotiation mandate.²⁴¹ The rejection of De Gaulle's proposed reform led to his resignation a day following the

²³⁵ HAEU, CM2/1969/105, Ausschuss der staendigen Vertreter, Entwurf einer Kurzniederschrift über die 498. Tagung, 21–23 Januar 1969, 12-13.

²³⁶ HAEU, CM2/1969/3, Europaeische Gemeinschaften, Der Rat, Protokoll über die 59. Tagung des Rates, den 27. und 28 Januar 1969, 42-50.

²³⁷ DA MSP RS, PA, f-141, d. 6, 43326, Telegram Ambassade SFRJ iz Rima DSIP-u, 28 January 1969.

²³⁸ DA MSP RS, PA, f-141, d. 7, 44433, Telegram Ambassade SFRJ iz Pariza DSIP-u, 5 February 1969, 1-3; PA, f-141, d. 7, 43967, Telegram Misije SFRJ iz Brisela DSIP-u, 3 February 1969.

²³⁹ Ludlow, *The European Community and the Crises of the 1960s*, 113.

²⁴⁰ DA MSP RS, PA, f-141, d. 9, 412476, Telegram Ambassade SFRJ iz Pariza DSIP-u, 4 April 1969.

²⁴¹ DA MSP RS, PA, f-141, d. 9, 413577, Telegram Ambassade SFRJ iz Pariza DSIP-u, 14 April 1969.

referendum. The political crisis and upcoming elections in mid-June once more delayed the decision on the mandate for Yugoslav beef exports. Under such circumstances, neither the Yugoslav government nor other EEC member states could put pressure on Paris. But in early June, as the French elections were approaching, Belgrade decided to submit Memorandum to the Commission and the member states in order to put Yugoslav issue back to the table.²⁴² With an intention of putting additional pressure on the Community, Memorandum of 4 June forewarned that if there would be no progress in Yugoslav–EEC trade relations the government “would have to look reluctantly at other alternatives that would be unavoidable in such situation.”²⁴³

The election victory of Georges Pompidou on 15 June raised hopes in Belgrade that a lingering impasse could finally be brought to an end. Other member states and the Commission were also determined to make progress in trade negotiations. West Germany in particular was now exerting influence to break the impasse. During Minister Tepavac’s visit to Bonn in late June 1969, Brandt told his Yugoslav counterpart that his government intended to react to the negative line taken by French government by outvoting it in the Council. As he conveyed to Tepavac, other member states found as well that the time has come to conclude a trade agreement with Yugoslavia. As the West German government considered that outvoting France would not cause a deterioration of relations within the Community, since Yugoslav case was a less sensitive issue than the British one, it was ready to take such unprecedented step to end the deadlock.²⁴⁴

Despite the political mood in the Community, the new French government did not soften its stance towards Yugoslavia. At the Council meeting on 22 July, the unified front comprising other five member states and the Commission, frustrated with the lack of progress, confronted France. During the meeting, they insisted that a definite decision regarding the negotiating mandate be made at the next Council meeting in September. Dutch Foreign Minister Joseph Luns and Brandt also underlined that in reaching this decision the Council could “act in accordance with the provisions of the Rome Treaty.”²⁴⁵ The heightened tensions between France and its European partners led to a change of Paris policy. The new Minister for Foreign Affairs, Maurice Schumann, began exerting strong pressure on the Minister for

²⁴² DA MSP RS, PA, f-141, d. 12, 418078, Telegram DSIP-a Misiji SFRJ pri EEZ, 27 May 1969.

²⁴³ DA MSP RS, PA, f-142, d. 1, 422337, Memorandum, June 1969, 3.

²⁴⁴ AJ KPR, 837, I-5-b/82-9, Informacija o poseti državnog sekretara za inostrane poslove M. Tepavca SRN u vremenu od 27. do 29. juna 1969, 3.

²⁴⁵ CM2/1969-038, 76ème session du Conseil, Bruxelles, les 22 et 23.07.1969

Agriculture, Jacques Duhamel, and the Prime Minister, Jacques Chaban-Delmas, to make concessions on the Yugoslav issue.²⁴⁶ Finally, at the Council meeting on 15 September, Minister Schumann announced that the French government would prepare a new proposal regarding the Yugoslav beef exports which would address the concerns of the Belgrade authorities.²⁴⁷

By November 1969 an intensive exchange of views took place between France, the Commission and the Belgrade government regarding a satisfactory solution for Yugoslav beef exports. In late September, Deputy Prime Minister Aleksandar Grlićkov had visited Paris. During the visit Grlićkov discussed the issue of the Yugoslav–EEC negotiating mandate.²⁴⁸ Following the first outline presented at the COREPER meeting on 15 October, France submitted the finalized proposal to COREPER on 4 November. At last, the Council adopted the negotiating mandate granting special concessions to Yugoslav beef exporters at the meeting on 10 November. From that point onwards, the trade negotiations proceed swiftly. The second round of negotiations took place on 10–12 December, and the third and last round was held on 2–6 February 1970. A month later, on 19 March, the long-awaited Yugoslav–EEC trade agreement was signed in Brussels by Belgian Minister of Foreign Affairs and the acting President of the Council Pierre Harmel, President of the Commission Jean Rey, and Yugoslav Minister for Foreign Trade, Toma Granfil.²⁴⁹ Finally, as signing of the agreement was initially supposed to take place in Belgrade, its conclusion was followed by a visit of Jean Rey to Yugoslavia between 31 May and 1 June 1970.²⁵⁰

The agreement was a three-year non-preferential trade arrangement based on most-favoured-nation treatment. It was in fact the first arrangement that the Community signed after the Common Trade Policy had entered into force on 1 January 1970. This was a mixed blessing since there was more flexibility on the Community's side in certain areas, but at the same time the Commission and the member states were cautious not to establish precedents for third countries, as the difficult bargaining over the negotiation mandate most vividly showed. The final arrangement encompassed trading arrangements for beef and other

²⁴⁶ DA MSP RS, PA, f-142, d. 3, 432853, Telegram Ambassade SFRJ iz Pariza, 11 September 1969.

²⁴⁷ CM2/1969-043, Réunion restreinte à l'occasion de la 79ème session du Conseil, Bruxelles, 15.09.1969

²⁴⁸ AJ SIV, 130, fascikla 477-793, Izveštaj o posjeti Francuskoj Aleksandra Grlićkova, potpredsednika SIV-a, 29 September 1969, 2-4.

²⁴⁹ AJ SIV, 130, fascikla 658-1089, Izveštaj o završenim pregovorima SFRJ sa EEZ, 9 February 1970, 1; SIV, 130, fascikla 658-1089, Predlog odluke SIV-a o primeni i sprovođenju trgovinskog sporazuma SFRJ-EEZ, 2 April 1970.

²⁵⁰ AJ SIV, 130, fascikla 658-1089, Predlog za posetu predsednika Izvršne komisije EEZ J. Rey-a Jugoslaviji, 20 May 1970.

important Yugoslav agricultural products, as well as tariff concessions for Yugoslav industrial exports. Regarding the latter both sides agreed to accelerate the implementation of the Kennedy Round tariff negotiations. The agreement also liberalised trade between Yugoslavia and the Community.²⁵¹

Beef arrangement was the most important part of the agreement. The compromise over beef resulted in a specific definition for certain categories of Yugoslav high-quality beef, the so-called “baby-beef,” for which the EEC lowered its levies. Although this provision was problematic since in fact it granted Yugoslavia preferential treatment, at the same time it addressed the problem of the stabilization of Yugoslav export earnings.²⁵² Furthermore, under the treaty provisions the Yugoslav–EEC Joint Committee was established with the aim to facilitate cooperation between the two parties. The first task of the Committee was to find a solution to Yugoslav exports of maize, tobacco and wine for which the two sides could not reach agreement during negotiations. In fact, the Yugoslav government assigned a greater role to the Joint Committee as a form of further strengthening economic and other cooperation with the Community. Finally, regarding the existing bilateral agreements between Yugoslavia and the member states, the provisions that were not superseded by the Yugoslav–EEC treaty remained valid. The only negative aspect of the agreement for Belgrade was that it included a safeguard clause which allowed the Community to suspend any concession unilaterally in the event of market disturbances. Despite the efforts of the Yugoslav delegation to keep out this provision from the treaty, the Commission insisted that this clause should be included.²⁵³

Overall, the agreement laid ground for future Yugoslav economic, financial, scientific and technological cooperation with the EEC. It also provided Yugoslavia with the channel to address its concerns regarding trade with Western Europe. For Brussels, the political aspects of the agreement were more important. Obviously, the Cold War considerations played a crucial part in formulating the EEC’s policy towards Yugoslavia as it was clearly in the interest of the West to support an independent, non-aligned and a more pro-Western European policy of Belgrade. But broader considerations also contributed to a more favourable approach of Brussels in dealing with Yugoslavia.

Namely, at that time The Hague summit of December 1969 launched a new phase in development of the Community. The revival of the process of European integration following

²⁵¹ Obadić, “A Troubled Relationship”, 340.

²⁵² AJ SIV, 130, fascikla 658-1089, Izvještaj o završenim pregovorima SFRJ sa EEZ, 9 February 1970, 12-18.

²⁵³ Ibid, 6–20.

De Gaulle's departure paved the way to a more ambitious agenda summarized in the principles of deepening, widening and completion of the Community. Now the door for the Community's first enlargement was finally opened. The shift from a largely inward-looking to a more global and outward-oriented Community intensified political cooperation of the EEC member states in the field of foreign policy as well. By November 1970, the efforts in conducting a European foreign policy resulted in setting up an intergovernmental forum – European Political Cooperation (EPC) – which aimed at coordinating the foreign policies of the EEC member states as much as possible.²⁵⁴ The EEC's growing role in the international arena also opened the question of its relations with the Eastern European socialist countries.²⁵⁵ As the Community had a strong interest in intensifying and broadening ties with Eastern Europe, establishment of diplomatic and trade relations with Yugoslavia sent a powerful political message to these countries. Moreover, closer relations with Belgrade, once a fierce critic of the Community and its protectionist policies, strengthened the position of the EEC in the Third World because of Yugoslav prominence in the Non-aligned Movement.

Besides addressing the most vital economic interests, the Trade Agreement was also an important milestone in formulation of the Belgrade's foreign policy as it illustrated a thickening network of relations between Yugoslavia and Western Europe. The rapprochement with Western Europe was certainly one of central political goals of the liberal faction within the Party who insisted that main interests of Yugoslavia, a medium-sized developing European country, lied in Europe. International developments also underlined the importance of closer relations with the EEC for Yugoslavia. The crisis of the Non-aligned Movement in the late 1960s, the Soviet threat to Yugoslavia after the Czechoslovakian crisis, American preoccupation with the Vietnam War, and emergence of the enlarged EEC as a potentially powerful actor in international affairs all pointed in the direction of closer ties with Western Europe and the EEC. The turn to the left in Western European countries in the late 1960s, above all in West Germany where Social Democrats for the first time in postwar period won elections in 1969, further reinforced Yugoslavia's lean towards Western Europe.

In a report drafted in connection with the visit of Jean Rey to Belgrade in the spring of 1970, the Ministry of Foreign Affairs and Foreign Trade underlined that “for Yugoslavia, as a European country, developed economic relations with the countries of the Community which

²⁵⁴ Daniel Möckli, *European Foreign Policy during the Cold War. Heath, Brandt, Pompidou and the Short Dream of Political Unity* (London and New York: I.B. Tauris, 2009), 7, 17–38.

²⁵⁵ Angela Romano, “Untying Cold War knots: The EEC and Eastern Europe in the long 1970s”, *Cold War History* 14, no. 2 (2013): 153–173.

play such a significant role in European and international economy and politics, represent not only an important basis of economic life and development, but also of the Yugoslav international position and security in general.”²⁵⁶ The change of mood in foreign policy establishment was nicely captured in an observation from Leo Mates, a prominent Yugoslav diplomat, who in a commentary published in a widely disseminated weekly magazine *Nin* in April 1970 stated that:

We have got used to seeing ourselves as a Third World country located in Europe, that is, as some sort of a representative of the Third World in Europe. But we shall be acting more appropriately today if we act as a European country that takes part in the actions of the Third World, as a country which can, and should, be some sort of a representative of Europe in that non-aligned part of the world.²⁵⁷

²⁵⁶ AJ SIV, 130, fascikla 658-1089, DSIP-SSST, Informacija o saradnji SFRJ-EEZ u vezi posete predsednika Komisije EEZ, Jean Rey-a, 15 May 1970, 4.

²⁵⁷ Leo Mates, “Opasnost sa Mediterana,” *Nin*, 26 April 1970, 28.

Table 19: Regional Distribution of Yugoslav Exports and Imports

EXPORTS (%)							
Region/year	EEC	COMECON	EFTA	Europe others	Third World	US	World (others)
1957	32.04%	24.32%	0.00%	21.87%	11.19%	8.46%	2.12%
1958	28.30%	27.79%	0.00%	22.29%	12.90%	7.47%	1.22%
1959	26.21%	30.84%	0.00%	19.51%	15.58%	6.53%	1.33%
1960	25.59%	32.12%	15.62%	3.98%	14.22%	6.82%	1.66%
1961	25.99%	30.86%	15.61%	4.21%	14.86%	6.42%	2.05%
1962	27.24%	24.17%	14.89%	2.06%	21.83%	7.56%	2.24%
1963	33.89%	26.68%	12.77%	1.58%	17.29%	5.86%	1.92%
1964	27.50%	34.41%	13.11%	2.40%	15.11%	5.75%	1.73%
1965	25.15%	41.96%	8.78%	2.59%	14.65%	5.69%	1.17%
1966	27.77%	36.55%	10.93%	3.04%	14.21%	6.14%	1.35%
1967	29.63%	36.03%	11.20%	3.60%	11.27%	6.33%	1.93%
1968	27.98%	34.40%	12.65%	3.65%	12.80%	7.08%	1.61%
1969	32.01%	30.59%	13.60%	3.20%	12.69%	6.33%	1.59%
1970	32.89%	32.07%	14.04%	3.20%	10.71%	5.33%	1.76%
IMPORTS (%)							
1957	27.13%	20.34%	0.00%	15.55%	8.73%	26.27%	1.98%
1958	27.37%	28.17%	0.00%	14.75%	7.49%	19.56%	2.66%
1959	28.21%	24.72%	0.00%	13.90%	9.29%	20.37%	3.50%
1960	32.55%	25.56%	13.91%	1.53%	12.02%	10.71%	3.72%
1961	35.69%	18.58%	12.25%	2.13%	8.44%	19.90%	3.01%
1962	28.32%	21.21%	12.58%	2.75%	10.19%	20.60%	4.36%
1963	26.90%	22.67%	12.36%	1.80%	13.12%	17.59%	5.57%
1964	28.36%	28.47%	11.13%	1.52%	13.46%	13.08%	3.97%
1965	25.96%	28.54%	10.95%	1.90%	13.10%	14.76%	4.80%
1966	26.30%	31.21%	11.05%	2.22%	11.54%	12.63%	5.06%
1967	38.48%	25.90%	12.39%	2.28%	10.38%	7.26%	3.30%
1968	39.05%	27.04%	14.06%	2.01%	8.40%	5.03%	4.41%
1969	39.43%	21.68%	16.04%	4.45%	11.09%	4.33%	2.99%
1970	39.83%	20.47%	17.95%	2.33%	10.11%	5.57%	3.74%

Source: Statistički godišnjak FNRJ/SFRJ (1959, 1963, 1967, and 1970), Beograd:

FNRJ/SFRJ Savezni zavod za statistiku

Table 20: Balance of Trade (1946-1979)

Year	Values in millions of dinars		Balance of trade	
	Exports	Imports	Exports+/-Imports	Exports in % imports
1946	1,028.0	773.0	255.0	133
1947	3,110.0	3,155.0	-45.0	98,6
1948	5,642.0	5,823.0	-181.0	96,9
1949	3,775.0	5,602.0	-1,827.0	67,4
1950	2,932.0	4,383.0	-1,451.0	66,9
1951	3,396.0	7,291.0	-3,895.0	46,6
1952	4,684.0	7,088.0	-2,404.0	66,1
1953	3,534.0	7,511.0	-3,977.0	47
1954	4,567.0	6,448.0	-1,881.0	70,8
1955	4,875.0	8,378.0	-3,503.0	58,2
1956	6,145.0	9,009.0	-2,864.0	68,2
1957	7,507.0	12,564.0	-5,057.0	59,7
1958	8,385.0	13,015.0	-4,630.0	64,4
1959	9,057.0	13,056.0	-3,999.0	69,4
1960	10,757.0	15,701.0	-4,944.0	68,5
1961	10,801.0	17,295.0	-6,494.0	62,5
1962	13,119.0	16,876.0	-3,757.0	77,8
1963	15,016.0	20,076.0	-5,060.0	74,8
1964	16,969.0	25,139.0	-8,170.0	67,5
1965	20,738.0	24,470.0	-3,732.0	84,7
1966	23,181.0	29,933.0	-6,752.0	77,4
1967	23,781.0	32,439.0	-8,658.0	73,3
1968	24,010.0	34,139.0	-10,129.0	70,3
1969	28,014.0	40,540.0	-12,526.0	69,1
1970	31,901.0	54,605.0	-22,704.0	58,4
1971	34,474.0	61,788.0	-27,314.0	55,8
1972	42,508.0	61,423.0	-18,915.0	69,2
1973	54,200.0	85,712.0	-31,512.0	63,2
1974	72,288.0	142,877.0	-70,589.0	50,6
1975	77,372.0	146,238.0	-68,866.0	52,9
1976	92,684.0	139,970.0	-47,286.0	66,2
1977	99,870.0	183,021.0	-83,151.0	54,6
1978	107,687.0	189,673.0	-81,986.0	56,8
1979	129,085.0	266,362.0	-137,277.0	48,5

Source: Statistički godišnjak Jugoslavije 1980, god. XXVII, Beograd: SFRJ Savezni zavod za statistiku, 1980

Conclusion

Yugoslavia was the first socialist country that established close ties with the Western European integration process already by the late 1960s. In 1948, when the post-war European integration process began with the European Recovery Plan, Yugoslavia was an unlikely candidate among Eastern European countries to advance relations with Western European organizations. Indeed, Belgrade's initial reactions to the European project were highly critical, but as the position of Yugoslavia dramatically changed following the break with the Soviet Union, and as Yugoslavia was becoming increasingly economically dependent on Western European countries, Belgrade's attitude towards Western European integration began to alter. During the 1950s Yugoslav policies towards Western European integration were based on the promotion of cooperation as broad and comprehensive as possible. Belgrade's policy was defined by strong domestic economic growth, the worldwide foreign trade policy and the relatively limited progress of Western European integration. In addition, from the mid-1950s Yugoslavia established limited cooperation with the OEEC and thereby protected its economic interests in Western Europe.

The Yugoslav attitude towards the integration process began to change as Yugoslavia's cooperation with the OEEC became less important as a result of the emergence of the EEC and EFTA. The Yugoslav adverse reaction to the EEC was not only based on economic arguments, but also reflected broader ideological considerations. In the end, three major developments put Yugoslavia's cooperation with the EEC on the table. A disappointing failure of the developmental strategy as well as foreign trade strategy of widening and diversifying trade relations worldwide had a strong impact on the policy circles. Even more importantly, the early success of the Community, which exceeded the expectations of the Belgrade authorities, and the emergence of the EEC as a powerful actor in the international economy both prompted a reappraisal of the Yugoslav policy towards Western European integration and the EEC. Thus, since the early 1960s, with the emergence of regional economic groupings in Europe and against a rapidly globalizing world trade system, the evolution of Belgrade's trade policy questioned the premises of the broader national strategy.

Yugoslav policy makers realised that their country needed to find *a modus operandi* with both regional blocs in order to preserve its economic interests and political independence. The EEC founding member states had been traditional trading partners of Yugoslavia. The geographical proximity, complementarity of their economies and the long-standing commercial relationships, combined with the economic potential of the EEC in the international trading system, decisively directed Yugoslav foreign trade towards the Community market. Although Yugoslav foreign trade policy had diversified, broadened, and to a certain extent balanced the country's trading relations with the world, especially with the Third World countries, Yugoslavia remained dependent on trade with the EEC. In particular, Yugoslavia looked to Western technology for its modernisation efforts and thus needed to export more to the West in order to obtain convertible currency to cover its endemic balance of payments deficit.

Yugoslav liberal policy makers believed that the Economic Reform of 1965, aimed at increasing the economy's effectiveness, could resolve the problematic structure of the foreign trade and reverse the negative trade and balance of payments trends. The success of their policy, however, was preconditioned on Yugoslavia's integration in the Western European economic system, and therefore it became of utmost significance for Yugoslavia to sign a trade agreement with the Community. Following the conclusion of the Yugoslav–EEC Trade Agreement in 1970, the prospect of Yugoslav cooperation and trade with the Community appeared to be promising in the early 1970s. The EEC included Yugoslavia in the Generalised Scheme of Preferences (GSP) programme which became effective on 1 July 1971. This decision had significant effects on Yugoslav–EEC trade since the GSP provided exemption from customs duties on imports of industrial products from developing countries. Hence, the Yugoslav relationship with the EEC was peculiar: on the one hand Yugoslavia was a beneficiary of the GSP, and on the other hand, its relations with the EEC were arranged by the Trade Agreement. As one of the most developed countries among the beneficiaries of the GSP, Yugoslavia derived the most benefits from this scheme. Yugoslavia also widened its relations with the Community. From 1971, it participated in the European 'Scientific and Technical Cooperation' (COST) in sectors such as telecommunications, metallurgy, and environmental protection. In 1973, Yugoslavia and the EEC signed a five-year Trade Agreement, as well as an agreement on cotton textiles. At that time relations with the Community became of an even greater importance for Yugoslavia due to the first enlargement of the EEC.

However, the development of these relations in the 1970s ultimately proved to be much more difficult and troubling for Yugoslavia. 1974 marked a turning point in Yugoslav–EEC relations, leading to a decline in trade that lasted throughout the 1970s. The main problem was a sharp worsening of the Yugoslav trade and balance of payment deficit. Several factors contributed to it. First, after the 1973 oil shock and the ensuing recession, which had wide-ranging impact on the international economic system and profoundly affected economic policies in Western Europe, the Community introduced protectionist measures to protect industry and workers of the member states. In 1974, as a result of surpluses on the markets, the EEC applied a safeguard clause regarding the beef and veal sectors, which remained in effect until 1977. This negatively affected Yugoslav exports. At the same time, revenues from invisible transactions (tourism and remittances from Yugoslav workers in Western Europe) stagnated due to rising unemployment in Western European countries. This further revived the question of balancing the trade and payments deficit with the Community, since Yugoslavia could no longer moderate its high imbalance in visible trade.

But the actions of the Community were not the only reason why the relationship was strained. Yugoslavia's internal economic problems in the 1970s, including low productivity, declining competitiveness, increased borrowing and excessive spending, had a decisive role in the deterioration of Yugoslav trade relations with the EEC. This is considered to be a direct consequence of the reversal of the economic policy in 1974, which in the end caused a severe economic crisis in the 1980s. In fact, a new direction in Yugoslav economic policy began after the fall of liberals in 1971/72. Most liberals were replaced by older conservative communist cadres who were critical about the Economic Reform. The fall of liberals also marked a change in foreign policy direction as Yugoslavia now again turned to a closer cooperation with the Third World countries and the Non-aligned Movement. In an attempt to legitimise their rule and gain wide public support, the new leaderships in the Yugoslav Republics initiated a dramatic expansion of investments which were financed by international loans. Many of these projects were made on political rather than on economic rationale. In addition, this reckless economic policy disregarded the effects of the 1970s recession and failed to restructure the Yugoslav economy. Stane Kavčič, the removed Slovenian liberal leader, described this change as follows: "The greatest evils and mistakes of this reversal

were not purges in a party ... but changed political course: from market economy we diverted towards agreement economy.”²⁵⁸

After the failure of attempts of liberal reformists to restructure the Yugoslav economy and the subsequent move back from pro-market economy to economy governed by political and bureaucratic interference, even the significant benefits deriving from the Yugoslav–EEC trade agreements could not have changed the general direction of the Yugoslav economy. The balance sheet of the Yugoslav relations with the EEC was deeply troubling for Belgrade. Yugoslavia failed to resolve its main foreign trade points at issue, and its position became even more vulnerable than it had been in the 1960s. As Sir Douglas Stewart commented in 1972, “the Yugoslav economy remains dominated by its Western connections not only in terms of visible trade, but also because it would collapse in ruins without Western tourism and the remittances of $\frac{3}{4}$ million Yugoslav workers employed in Western Europe.”²⁵⁹ The situation became especially serious in the late 1970s, when Yugoslavia’s staggering trade imbalance with the EEC, combined with an excessive investment policy, created a huge foreign debt. Notwithstanding the economic difficulties, the political dimension in the Yugoslav–EEC relations was becoming increasingly important. Domestically, there were growing disparities amongst the Yugoslav Republics regarding the cooperation with the Community, which became yet another point of division between them. Furthermore, the widening and deepening of the Community opened some new issues in Yugoslav relations with EEC, such as the cooperation in the field of environment; transport; finance etc. Especially delicate was the social question of large Yugoslav labour migration in Western Europe.

At the moment when Yugoslavia was entering into the turbulent post-Tito period, Belgrade had limited options for how to address this troublesome situation. The best alternative was to further strengthen and diversify relations with the Community in order to find a solution to the complex problems, especially to stabilise their trade relations. Thus, the unfavourable trade relations impelled the Yugoslav government to launch negotiations with the Community about a new cooperation framework in the mid-1970s. The latter would aim at improving economic and financial relations and ideally resolve the causes of imbalance in trade relations.

The Community also had significant political interests to find a solution to the Yugoslav problems because Belgrade, due to the high trade deficit with the EEC, diverted its

²⁵⁸ Jože Pirjevec, *Tito i drugovi* (Zagreb: Mozaik knjiga, 2012), 611.

²⁵⁹ TNA, FCO 28/2122, Diplomatic Report No. 520/72, 14 December 1972, 4-5.

trade to COMECON countries, with the Soviet Union once again becoming its largest foreign trade partner in the mid-1970s. The EEC member states shared the American view that “the status of Yugoslavia has come to involve the stability and security of the continent as a whole”, since both East and West “have come to understand that the current balance in Europe would be changed if Belgrade were to adhere to one Bloc or another.”²⁶⁰ As Emilio Colombo, President of the European Parliament, underlined during his meeting with Tito in 1978, Yugoslavia and President Tito had a significant role as a factor of stability in Europe and was one of the leading actors among non-aligned countries which have a prominent role in the world: “Because of this, the Community wants to contribute to the political stability of Yugoslavia, bearing in mind its role in the world.”²⁶¹

In order to achieve their goals, the EEC and Yugoslavia intensified diplomatic relations. The 1976 Joint Declaration of Belgrade was regarded as an important step in defining the future of Yugoslav–EEC relations, which were negotiated from 1978 until 1980. Following the signing of the Belgrade Declaration, Yugoslavia and the EEC also established a framework for financial cooperation. However, once again the negotiations proved difficult, and only another Soviet intervention, this time in Afghanistan, combined with the anticipated death of the most important stabilising factor in Yugoslavia – President Tito – led to the signing of the Cooperation Agreement in 1980. The Agreement defined a new approach of the Community to Yugoslavia by highlighting “a common will to contribute to the economic development of Yugoslavia”, and “the interdependence and complementarity of their economies, with a view to more harmonious development of their economic links.” This opened a new chapter in the relationship between Yugoslavia and the EEC, as it strengthened, deepened and diversified their cooperation.

In the post-Tito period, some critical voices rose in Yugoslavia against Tito’s policy of non-alignment. Critics argued that this national strategy had isolated the country from “its natural and cultural, historical, economic and political surrounding.”²⁶² Yet, approaching the Third World countries had been the only possible option for the Yugoslav communists after the break-up with the Stalin’s Soviet Union. In a Cold War-divided Europe, political and ideological reasons prevented the Yugoslav leadership from envisaging Yugoslavia’s membership in either bloc. Yugoslavia’s unique position in Europe as a communist country

²⁶⁰ From “National Communism” to National Collapse, *Yugoslavia: An Intelligence Appraisal* (In Response to NSSM 129), 27-Jul-1971, 60.

²⁶¹ AJ KPR, 837, I-3-b/53, Zabeleška o razgovoru predsednika Josipa Broza Tita sa predsednikom Evropskog parlamenta dr. Emilom Kolombom, 2.

²⁶² Tvrtko Jakovina, *Treća strana Hladnog rata* (Zaprešić: Fraktura, 2011), 20.

acting as a buffer between the two blocs determined the political limitations of the country's possibilities of association with either Eastern or Western European integration process. This study shows that despite efforts to integrate into the world economy and diversify its trade relations, Yugoslav leadership increasingly opted for a closer relationship with the EEC since the mid-1960s as a way to pursue Yugoslavia's economic interests and ensure political stability. The EEC remained the most important economic partner of Yugoslavia. In the 1980s once again, however, further cooperation became much more difficult as Yugoslavia entered yet another period of economic, political and social crisis which eventually led to the country's disintegration.

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Zvonimir Baletić, 20/01/2015: professor at the University of Zagreb; economist; Director of the Institute of Agriculture (1964–1971); member of the FEC Committee for Regional Development within the framework of the Long-term Stabilization Programme; president of the European Movement Croatia; minister in the Government of Croatia (1991–1993).

Pavle Gaži, 22/07/2015: General Manager of Podravka, one of the largest food-processing and pharmaceutical companies in Yugoslavia (1952–1978); Executive Secretary of the League of Communists of Yugoslavia (1978–1982); Croatian Minister of Internal Affairs (1982–1984).

Oskar Kovač, 23/04/2015: professor at the University of Belgrade, Head of the Department in the Republic Planning Office of Serbia (until 1972), member of the FEC (1986–1989), the prime-minister Deputy of the Federal Republic of Yugoslavia government in 1992.

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