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File Folder EASTERN EUROPEAN POLICY SEPTEMBER 1983-
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FOIA

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41

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
153892	REPORT		1	9/9/1983	B1
153887	CABLE	BELGRADE 7452 <i>R 6/2/2015 M452/2</i>	1	9/12/1983	B1
153893	REPORT		3	9/13/1983	B1
153888	CABLE	RE. POLAND <i>R 6/2/2015 M452/2</i>	3	9/13/1983	B1
153889	REPORT	RE. EAST GERMANY	23	9/1/1983	B1
153894	REPORT		2	10/12/1983	B1
153895	REPORT		5	10/13/1983	B1
153890	CABLE	BERLIN 04134 <i>R 6/2/2015 M452/2</i>	2	10/18/1983	B1
153896	REPORT		2	10/27/1983	B1
153891	PAPER	RE. YUGOSLAVIA AT A CROSSROADS <i>R 6/2/2015 M452/2</i>	5	11/1/1983	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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153887

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~~C O N F I D E N T I A L~~ BELGRADE 7452

LIMDIS
DEPARTMENT FOR C; ALGIERS PASS VICE PRESIDENT'S OFFICIAL
PARTY FOR DAS MARK PALMER
EO 12356: DECL: OADR
TAGS: PGOV, PINS, EGEN, SOCI, ELAB, KPRP, US, YO
SUBJ: ASSEMBLY SUPPORT FOR ECONOMIC STABILIZATION

1. (C) SUMMARY: IN THE COURSE OF AN HOUR LONG DIS-
CUSSION SEPTEMBER 6 WITH VISITING COUNSELOR DERWINSKI,
ISO NJEGOVAN (PROTECTL, PRESIDENT OF THE YUGOSLAV
GROUP OF THE INTER-PARLIAMENTARY UNION (IPU), EM-
PHASIZED THE YUGOSLAV FEDERAL ASSEMBLY'S SUPPORT FOR
THE RECENTLY ADOPTED GUIDELINES FOR THE LONG-TERM
PROGRAM OF ECONOMIC STABILIZATION. NJEGOVAN ALSO COM-
MENTED ON YUGOSLAV PARTICIPATION IN THE UPCOMING IPU
MEETING IN SEOUL (SEPTEL). END SUMMARY.

2. (U) ACTION REQUESTED: NONE.

3. (C) COMMON ECONOMIC POLICY. IN SUMMARIZING YUGO-
SLAVIA'S RECENT DOMESTIC CONCERNS, NJEGOVAN CITED
AS THE GOVERNMENT'S MAIN ACHIEVEMENT THE ADOPTION OF
A "COMMON ECONOMIC POLICY," BY WHICH HE WAS REFERRING
TO AGREEMENT REACHED IN LATE JULY BY THE VARIOUS
FEDERAL BODIES AND THE REPUBLICS AND PROVINCES TO
ADOPT THE CONCLUSIONS OF THE PROGRAM FOR LONG-TERM
ECONOMIC STABILIZATION DRAWN UP BY THE KRAIGHER COM-
MISSION.

4. (C) FEDERAL ASSEMBLY'S ROLE. NJEGOVAN NOTED THAT
THE FEDERAL ASSEMBLY HAD PLAYED AN ACTIVE ROLE IN
WORKING OUT AGREEMENT ON THE REFORM GUIDELINES, AND
HE STRESSED THAT AGREEMENT HAD BEEN COMPLETE. HE
PARTICULARLY EMPHASIZED THAT THERE IS NO/NO FOUNDATION
TO RUMORS THAT DISAGREEMENT PERSISTS BETWEEN THE
ASSEMBLY AND THE FEDERAL EXECUTIVE COUNCIL (FEC, OR
CABINET) ON ECONOMIC POLICY. COMMENT. BEFORE THE
KRAIGHER COMMISSION'S CONCLUSIONS WERE ADOPTED THERE
WAS VOCIFEROUS DEBATE, PARTICULARLY IN THE ASSEMBLY,
AND A CONSENSUS WAS NOT A FOREGONE CONCLUSION.
NJEGOVAN MAY HAVE BEEN REFERRING TO RECENT
CRITICISM OF THE FEC AND ITS ECONOMIC POLICY BY THE CROATIAN
TRADE UNION CONFEDERATION (CUC). THE CTUC WAS PARTICULARLY
CRITICAL OF THE UNFREEZING OF PRICES THAT LED TO
THE AUGUST PRICE EXPLOSION.

5. (C) POPULAR RECEPTION OF "STABILIZATION" MEASURES.
TO DATE, NJEGOVAN SAID, THE YUGOSLAV PEOPLE HAD
TDEMONSTRATED A "GOOD UNDERSTANDING" FOR THE "LIMITS"
ON THE STANDARD OF LIVING THAT THE GOVERNMENT HAD BEEN
OBLIGED TO IMPOSE (IN ITS STABILIZATION EFFORT).
HOWEVER, NJEGOVAN OBSERVED THAT THE MEASURES ADOPTED
TO DATE REPRESENTED ONLY A BEGINNING AND HE EXPECTED
DIFFICULTIES (UNSPECIFIED) WHEN FURTHER MEASURES
WERE ADOPTED.

6. (C) COMMENT. WE HAVE SEEN SIGNS OF OFFICIAL CON-
CERN ABOUT EMPLOYMENT AND WORKERS' STANDARD OF LIVING
RECENTLY, AND NJEGOVAN'S REMARKS PROBABLY REFLECT NOT
ONLY THIS GENERAL CONCERN BUT THE SENSITIVITY TO THE POPULAR
MOOD THAT YUGOSLAV GOVERNMENT OFFICIALS HAVE DEMONSTRATED
THROUGHOUT THE PAST YEAR. END COMMENT.

7. (U) COUNSELOR DERWINSKI HAS NOT/NOT CLEARED THIS
CABLE. ANDERSON
BT

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153893	REPORT	3	9/13/1983	B1

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TO: (Agency) DELIVER TO: Extension Room No.

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FOR CLEARANCE INFORMATION PER REQUEST COMMENT

REMARKS URGENT CLR REQUESTED BY 12 NOON, THURSDAY, SEPTEMBER 15

S/S Officer: *Bone*
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CROSSHATCH

RETURN TIME-STAMPED COVERSHEET TO S/S.

~~SECRET~~

LONG-TERM, STEP-BY-STEP POLICY WITH YOU AND OUR OTHER NATO ALLIES.

IN THE MEANTIME, GIVEN THE STRONG INTEREST ON THE PART OF OTHER MEMBERS OF THE PARIS CLUB TO GATHER THE INFORMATION NEEDED FOR ANY EVENTUAL DECISION TO HOLD RESCHEDULING TALKS, WE ARE PREPARED TO JOIN IN A TECHNICAL/INFORMATIONAL TEAM WHICH WOULD BE SENT TO WARSAW. OUR WILLINGNESS TO AGREE TO THE DISPATCH OF A TECHNICAL WORKING GROUP TO WARSAW IN LATE SEPTEMBER OR EARLY OCTOBER TO GATHER FINANCIAL DATA MUST NOT BE CONSTRUED AS AGREEMENT TO COMMENCE OR PARTICIPATE IN FORMAL TALKS. ACCORDINGLY, WE ARE NOT NOW PREPARED TO GO ALONG WITH THE ISSUANCE OF AN INVITATION TO THE POLES TO COME TO PARIS TO MEET WITH THE GROUP TO BEGIN RESCHEDULING TALKS. THEREFORE WE CANNOT AGREE TO HAVE THE PARIS CLUB GO BEYOND THE "IN PRINCIPLE" POSITION IN FAVOR OF RESCHEDULING AT THIS TIME. WE WILL NOT BE ABLE TO JOIN IN THE TECHNICAL TEAM IF THE PARIS CLUB GOES BEYOND THIS POSITION.

I HAVE APPRECIATED THE SUPPORT WHICH THE FEDERAL REPUBLIC HAS GIVEN TO OUR JOINT POLICY FOR DEALING WITH THE SITUATION IN POLAND. WE HAVE TRIED TO BE AS FLEXIBLE AS POSSIBLE AND HOPE YOU WILL SUPPORT US AT THE SEPTEMBER 15 MEETING. WE KNOW YOU ALSO UNDERSTAND THE IMPORTANCE OF AVOIDING A SPLIT AT THIS TIME WITHIN THE ALLIANCE. SUCH AN ACTION WOULD STRENGTHEN THE HAND OF THOSE IN THIS COUNTRY WHO FAVOR CALLING POLAND INTO DEFAULT.

THE UNITED STATES REMAINS INTERESTED IN THE ROMAN CATHOLIC CHURCH'S PLAN TO CHANNEL FUNDS TO PRIVATE AGRICULTURE. I UNDERSTAND YOUR REASONS FOR NOT MOVING NOW ON THIS SUBJECT. NEVERTHELESS, GIVEN THE EXTENT OF INTEREST IN WASHINGTON, I WOULD HOPE THAT OUR TECHNICAL SPECIALISTS WILL BE ABLE TO SIT DOWN AND BEGIN DISCUSSIONS ON IT AT AN EARLY DATE.

FINALLY, I UNDERSTAND THAT THE EC FOREIGN MINISTERS AGREED ON SEPTEMBER 12 TO A STEP-BY-STEP APPROACH TO DEALING WITH THE POLISH QUESTION. I TRUST THAT IMPLEMENTATION OF THIS APPROACH WILL BE DEPENDENT ON HUMAN RIGHTS PROGRESS WITHIN POLAND. IT WOULD BE DIFFICULT TO JUSTIFY MOVEMENT ON THIS QUESTION TO THE POLISH PEOPLE IN THE ABSENCE OF MEANINGFUL PROGRESS ON THE HUMAN RIGHTS FRONT. IT WILL BE VERY IMPORTANT FOR US TO BE IN CLOSE CONSULTATION AS WE RESPOND TO DEVELOPMENTS WITHIN POLAND.

~~SECRET~~

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3

SIGNED, GEORGE P. SHULTZ. END TEXT

yy

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153889	REPORT RE. EAST GERMANY	10 13	9/1/1983	B1

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153894	REPORT	2	10/12/1983	B1

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153895	REPORT	5	10/13/1983	B1

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EXDIS
E. O. 12356: DECL: OADR
TAGS: EGEN, PGOV, GC
SUBJ: IREX CONFERENCE PARTICIPANT'S COMMENTS ON GDR
- BELT-TIGHTENING AND STABILITY
REF: STATE 295221

1. C - ENTIRE TEXT.
2. THE GDR'S CURRENT ECONOMIC DIFFICULTIES AND THE POTENTIAL RESULTANT LEVERAGE FROM FRG LOANS ARE BOTH TOPICS UNDER WIDE DISCUSSION HERE, BUT NEITHER WE NOR OUR FRG PERMANENT MISSION COLLEAGUES SEE THE ISSUES IN THE STARK TERMS INDICATED BY REFTEL.
3. WITH RESPECT TO LAST SUMMER'S "JUMBO LOAN," AS REPORTED EARLIER IN DETAIL THE ARRANGEMENTS WERE MADE COMMERCIALY BY FRG BANKS WHICH STOOD TO MAKE MONEY ON THE DEAL AND THEMSELVES PROBABLY ALL HAVE SUBSTANTIAL EXPOSURE IN THE GDR. THE BONN GOVERNMENT'S GUARANTEE WAS AN IMPORTANT ASPECT OF THE LOAN ARRANGEMENTS, BUT ACCRUED ONLY LIMITED LEVERAGE GIVEN THE BALANCES IN STRAIGHT ECONOMIC TERMS. SINCE THE LOAN, THERE HAS BEEN MUCH TALK OF WHAT THE GDR SHOULD OR WOULD DO TO SHOW ITS APPRECIATION (A GDR "GEGENLEISTUNG" AS THE GERMANS CALL IT), BUT UP TO NOW THE GDR HAS NOT BEEN VERY FORTHCOMING AND THE FRG HAS AT TIMES APPEARED TO BE DEFENSIVE IN EXPLAINING THE THINNESS OF THE GDR'S RESPONSE.
4. INSIDE THE GDR, ECONOMIC PROBLEMS, INCLUDING BOTH THEIR HARD CURRENCY POSITION AND CONSUMER SHORTAGES, HAVE BEEN VERY MUCH PART OF THE PICTURE FOR MONTHS, BUT NO ONE HERE YET PERCEIVES ANYTHING ON THE SCALE OF 1953. WHILE THE GDR LEADERSHIP IS CLEARLY CONCERNED TO HEAD OFF CONSUMER DISSATISFACTION AND PRICE RISES MAY BE INEVITABLE, THE ECONOMICS SEEM MANAGEABLE AND THERE IS NO INDICATION OF CURRENTLY SNOWBALLING PROBLEMS. THE GDR'S HARD CURRENCY CRUNCH WAS BY ALL APPEARANCES WORSE ABOUT 18 MONTHS AGO AND THE INTERIM BELT-TIGHTENING HAS EVIDENTLY EASED THE PROBLEM CONSIDERABLY. ONE REFLECTION OF IMPROVEMENT WAS THAT REPORTS FROM THE LEIPZIG FAIR LAST MONTH INDICATED THAT WEST EUROPEAN BANKS HAVE STARTED TO LOOSEN UP ON SUPPLIER CREDITS.

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PAGE 02 OF 02 BERLIN 4134

DTG: 181515Z OCT 83 PSN: 055410

5. LOOKING AHEAD IN ANSWER TO REFTEL'S QUESTION ON THE OUTLOOK FOR CREDITS AND LEVERAGE, MANY IN THE FRG AND ELSEWHERE EXPECT THE GDR TO BE ASKING AGAIN FOR BIG AND UNTIED LOANS. HOWEVER, THERE REMAINS CONSIDERABLE UNCERTAINTY ON HOW MUCH THE GDR MIGHT BE WILLING TO PAY, OR HOW FAR THE FRG MIGHT GO IN TRYING TO EXPLOIT ITS POSSIBLE LEVERAGE. WE DEFER TO EMBASSY BONN ON THE FRG'S LIKELY POSTURE, BUT EVERYTHING WE HAVE ON THE GDR SIDE SUGGESTS THE EAST GERMAN LEADERS WILL DO THEIR BEST TO "PAY" AS LITTLE AS POSSIBLE (AS THEY DID FOR THE FIRST LOAN), AND THAT THE DOMESTIC POLITICAL PRESSURES ARE OF A VASTLY DIFFERENT CHARACTER THAN THE SITUATION OF 1953.
RIDGWAY
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DISCUSSION PAPER:

DRAFT
11/1/83

YUGOSLAVIA AT A CROSSROADS

Two and one-half years after the death of Tito, Yugoslavia is at a political and economic crossroads. How we respond now to Yugoslavia's pressing economic problems and related political concerns will be critical factors in whether U.S. interests in this key strategic country can be sustained in the near and medium term.

1. THE PROBLEM:

The Yugoslav economy is in a severe liquidity crisis and may be approaching default on its international obligations. Industrial output is sharply falling, energy consumption is being rationed and a virtual cutoff of short-term and medium-term lending by major international banks has dried up liquidity essential to the normal functioning of the economy. U.S. bankers and other close observers seem agreed that, barring a massive rescue effort, Yugoslavia will have to face general rescheduling of its Western debt - perhaps in early 1983.

Yugoslav political leaders remain adamantly opposed, however, to any major rescheduling. This point was made forcefully by Yugoslav Foreign Secretary Mojsov in his October 4 meeting in New York with Secretary Shultz. The reasons are political as well as economic. While we may not agree with all their reasoning, the implications for the West of a worsening Yugoslav economic crisis are serious.

Yugoslavia's decentralized economic and banking system would make a general rescheduling a complex and intrusive undertaking. The existing system of autonomous regional banks reflects Yugoslavia's delicate internal political balancing act. GOY leaders are now convinced that regional financial transactions must be better coordinated and backstopped. There is also serious attention being given to the need to restructure the Yugoslav economy to be more efficient and competitive--- more market-oriented. It is hoped to achieve all this, however, without turning the clock back on

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decentralization in general, which has become a Yugoslav hallmark. The leadership does not want to push too hard for controls from Belgrade, which would be anathema to some of the country's national groups. The GOY is fearful that a general rescheduling would be accompanied by outside pressures for central controls going beyond what is politically tolerable if done more gradually and by the Yugoslavs themselves.

The Yugoslav leaders are also concerned about the broader implications of reaching an economic nadir in which rescheduling becomes necessary and of what is seen in Yugoslavia as a Western refusal to help. We are already hearing comments from influential Yugoslavs that the West has decided to "abandon" Yugoslavia. Most of these persons are well-disposed to the West and all of them want Yugoslavia to remain truly nonaligned and politically and economically independent of the USSR. GOY leaders have watched with concern the expansion of the Yugoslav trading relationship with the Soviet Union, as Yugoslavia's ability to buy and sell in Western markets has stagnated or diminished.

For all of these reasons, the Yugoslav leaders view the prospect of general rescheduling not as a new beginning or fresh start but as a formal admission of failure. Directives from outsiders regarding conditions to be met for rescheduling would be a serious blow to Yugoslav pride. One cannot predict how serious the "abandonment" syndrome will become, or how this will change attitudes within Yugoslavia toward the West and the U.S. in particular. In any event, the top leaders are deeply worried that rescheduling will be widely interpreted outside Yugoslavia as symbolizing the failure of the vaunted Yugoslav alternative to traditional, centralized communist control. It would also, in their view, project economic and leadership weakness so serious as to leave the country vulnerable to outside pressures. Foremost, of course, is concern over potential Soviet pressures for concessions in political and military areas.

GOY top political leaders still hope that something can be done to give their economy an extended lease and avoid reaching the point where general rescheduling is unavoidable. Unpopular domestic measures have been taken. Gasoline has been rationed, politically-sensitive and potentially-destructive limitations have been placed on travel abroad and access to private hard currency accounts, and the dinar has been devalued. Growing economic strains could interact with the latent nationality

problem leading at some point to increased domestic unrest. The choices before the top Yugoslavs over the next few months pose a serious test of the post-Tito leadership and perhaps the greatest challenge since the 1948 break with Stalin.

The Yugoslavs recognize that their independence hinges on internal stability and the country's economic viability. They also believe that American perceptions and interest coincide with their own in this respect. This seems to explain why the leadership, despite its suspicions and desire to avoid dependence on either "super power", has turned first to us. Examples include then-President Kraigher's meeting with the President at Cancun, Foreign Secretary Mojsov's Westward-looking inaugural foreign policy address this summer, and President Stambolic's July letter to the President asking that he support Yugoslavia's loan effort.

2. U.S. INTERESTS:

Yugoslavia's unity and stubborn independence of "blocs" serves our strategic interest in the Balkans and Mediterranean as well as our political interest in encouraging the attenuation and eventual dissolution of the Soviet empire:

a. Geopolitical:

The Adriatic is an open sea, the Warsaw Pact is denied bases there, and the Soviet threat to NATO allies Greece and Italy and to the Middle East is, as a consequence, substantially less. Yugoslavia controls the only air corridor from the Warsaw Pact to the Mediterranean and the Middle East through non-NATO airspace. The Soviets are denied Adriatic airfields. Thus they have no tactical air support for the Soviet Mediterranean Fleet. The Yugoslav ground defense is primarily geared to repelling an attack from the Warsaw Pact. It is presumably determined to block any move through northern Yugoslavia by Pact forces seeking to enter northern Italy via the Gorizia Gap.

b. Economic

U.S. economic interests in Yugoslavia are substantial. The

Yugoslavs have purchased billions of dollars worth of U.S.-made industrial equipment, agricultural products, and manufactured goods (\$6.3 billion since 1965). The presence of well-known U.S. and other Western products throughout the country constantly underscores the efficacy of the industrial democracies in producing a rising standard of living and the material well-being associated with Western life. Seeing this, the Yugoslavs have continued to work toward a market-oriented economy, seeking to stimulate their firms to greater efficiency through competition with foreign firms both in export and domestic markets. Foreign private investors are welcomed, and the U.S. is the largest foreign equity investor in Yugoslavia. Yugoslavia is a full member of the GATT, the IMF, and the World Bank. All this takes place under a system that is nominally socialist, greatly magnifying the Yugoslav example's impact on its neighbors to the East.

c. POLITICAL

Yugoslavia, the prize that eluded Stalin in 1948, has not been forgotten in the Kremlin. The U.S. gave Tito the help that was essential to keep Yugoslavia independent while he began the slow process that has resulted in opening Yugoslavia to the West and permitted evolution in the direction of pluralism, and fostered receptivity to Western attitudes and culture. As a result, Yugoslavia is now well along a course that is the envy of the Eastern European countries of the Warsaw Pact (with the partial exception of Hungary), and is gradually evolving in the direction of peaceful democratic change. What happens in Yugoslavia has obvious implications for future developments with respect to Romania and other Eastern European countries.

A protracted Yugoslav economic crisis accompanied by a loss of faith in the West could lead that country in several possible directions, none of them in our interests. As a coalition of historically-warring national groups and economically-disparate regions, Yugoslavia is not easy to govern - especially by committee - even in the best of economic times. It is quite possible that an extended downward economic drift, exacerbated by internal political strains, would lead to increased domestic dissention. If matters continue on their current downward course, it is difficult to foresee any scenario which would not, inter alia, undo much of the progress over the years in that country's gradual democratic evolution,

including human rights gains. The Yugoslav model, publicly discredited as an effectively functioning economic system and stripped of its democratic trappings, would lose its luster as a beacon for pluralism in the communist world. A prolongation of Yugoslavia's problems could threaten that country's independent course and seriously weaken Yugoslavia's ability to withstand Soviet pressures for political and military concessions.