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USSR APPLIES ECONOMIC PRESSURE ON YUGOSLAVIA

Several Soviet commercial actions have been directed against Yugoslavia since its criticism of the invasion of Czechoslovakia, leading Belgrade to fear a Soviet economic reprisal. Nevertheless, Yugoslav-Soviet trade under existing agreements, including deliveries under Soviet industrial credits, has continued thus far.

Soviet pressure on Yugoslavia since August has taken several forms. Shortly after the invasion, Moscow canceled a conference that was to discuss Soviet purchases of Yugoslav ships worth about \$200 million. Negotiations on Yugoslav railway car sales to the USSR and other Warsaw Pact countries have been delayed. Recently, Soviet state banks have refused to purchase Yugoslav commercial paper, thus causing a reduction in its value and complicating Belgrade's trade relations with the West.

The USSR has also delayed the beginning of talks, usually held in the fall, on the 1969 Soviet-Yugoslav trade protocols. In sharp contrast, the USSR has either concluded or is in the process of negotiating protocols with all its other trading partners in East Europe.

If the USSR and the other Warsaw Pact countries break economic relations with Yugoslavia, the country at the maximum would lose one third of its export market and one fourth of its total supply of imports. The effect on the entire economy of such a

trade cutoff would be to slow down domestic production and raise unemployment. The main impact would fall on the exports of the steel, machine building, chemical, textile, and shipbuilding industries.

A rupture in Yugoslavia's Eastern trade would also set back temporarily the liberalizing measures that are part of the economic reform. Belgrade probably would increase import and price controls, and exercise a more direct influence on production and investment decisions to assure that changes in output and employment would conform to the altered foreign trade conditions. Rationing of some raw materials might be necessary until new sources of supply could be found.

A trade cutoff would almost certainly result in new requests for Western assistance in re-scheduling debt repayments and providing long-term credits. Although Yugoslavia and the Warsaw Five reportedly have agreed privately that normal economic relations will be maintained despite political controversy, Belgrade's distrust of Soviet intentions is leading it to make increased efforts to solidify and broaden its commercial contacts with the West. As a result, Yugoslavia's trade with the Warsaw Pact countries is not likely to increase significantly in the next few years unless the political atmosphere improves markedly.

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