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ESTIMATE OF THE YUGOSLAV REGIME'S ABILITY TO RESIST SOVIET PRESSURE DURING 1949

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ESTIMATE OF THE YUGOSLAV REGIME'S ABILITY TO RESIST SOVIET
PRESSURE DURING 1949 *

SUMMARY

1. Kremlin plans do not include direct Soviet and/or Satellite military aggression against Yugoslavia for the duration of 1949.

2. In addition to a more hostile but probably ineffective propaganda campaign, border incidents against Yugoslavia will probably increase. These activities, however, will not develop into large-scale guerrilla warfare in 1949.

3. Tito's regime will meet no insurmountable obstacles to its continuance in power during 1949.

4. It is estimated that the proclamation of an "independent" Macedonia would have little success in gaining the support of any significant number of Yugoslav Macedonians. Such a proclamation, however, is considered unlikely for the immediate future.

5. Under prevailing internal and external conditions, the Soviet bloc will not be able in

1949 to exert sufficient economic pressure to force the collapse of the Yugoslav economy. Even without imports from the US, the Yugoslav economy would not be seriously disrupted during this period.

6. During 1949, Tito will seek to acquire industrial imports from the West. He is apparently confident of Western determination to maintain him as a continuous irritant to the Kremlin, and of his ability to obtain economic assistance from the West with a minimum of political concessions and strategic exports. Following a policy of self-protection and of economic self-interest, he will continue to trade with the East in certain strategic items.

7. Military pressure from the East may eventually necessitate, for the purposes of US policy, military and economic assistance which would provide Yugoslavia with some means of self-protection. Much depends upon the extent of such pressure. The West, however, could provide necessary military equipment for immediate emergency use more easily and with greater assurance of effective utilization than it could the means for production of such equipment.

* This estimate presents a survey of some of the methods available to the Kremlin to dispose of the Tito regime and of the means available to Tito to resist such methods as the Kremlin may employ in 1949. The methods and means under consideration fall logically into four main categories: Military, political, economic, and subversive.

Note: The intelligence organizations of the Departments of the Army and the Air Force have concurred in this report. The Intelligence Organization of the Department of State "concurs in the main body of the subject report. The appendix, however, contains figures which are not confirmed—some at variance with our estimates. Concurrence, therefore, does not extend to the accuracy of the details in the appendix." The Director of Naval Intelligence "concurs with subject paper except for paragraph 7, page 1, and fourth paragraph, 2nd column, page 4, which discuss future U.S. policy. The Office of Naval Intelligence has no cognizance over the formulation of U.S. policy." The report is based on information available to CIA as of 8 June 1949.

ESTIMATE OF THE YUGOSLAV REGIME'S ABILITY TO RESIST SOVIET PRESSURE DURING 1949

1. Military.

The Soviet leaders have the following possible courses of action open to them in attempting to bring about the overthrow of the Tito regime by force of arms:

(1) Development of border incidents into organized guerrilla warfare (see Subversive Section, page 4);

(2) Direct military aggression by a combination of satellite armies from countries contiguous to Yugoslavia;

(3) Direct military aggression against Yugoslavia by Soviet troops.

Large-scale guerrilla warfare, which would actually be a war of attrition, presents the only serious military threat to Tito's control for the remainder of 1949. It is estimated that the Kremlin will not resort to large-scale guerrilla warfare unless it is prepared to risk open war with Yugoslavia. Tito would take vigorous counter-measures to prevent the development of a war of attrition with its potentially fatal consequences to his regime. In such an eventuality, those measures would probably involve Yugoslav-sponsored guerrilla action in Albania and Bulgaria, which would create serious difficulties for the regimes of those two countries, especially the insecure Hoxha Government in Albania.

The Yugoslav Army, which is the second largest and second most competent in Eastern Europe, can defeat any combination of bordering satellite armies. The latter, apart from their doubtful loyalty to the Soviet Union, cannot in 1949 attain the capabilities to cope with the Yugoslav Armed Forces, even with extensive Soviet logistical aid.

Direct Soviet military intervention in 1949 is considered improbable. Prior to any direct attack upon it, the Yugoslav Army would probably have from thirty to sixty days to regroup in the mountainous region south of the Sava and Danube rivers, thus preventing its annihilation by the USSR forces. The de-

termination and ability of Tito's forces to resist, even in guerrilla warfare, would act as an additional deterrent to direct Soviet military intervention.

2. Political.

The Soviet Union can expand its dialectical campaign against Tito and step up the war of nerves against Yugoslavia by increasing the number and virulence of protests against alleged Yugoslav-inspired border incidents. Through propaganda media it can appeal more and more openly to various Yugoslav minority groups to overthrow the Tito regime in return for promised preferential treatment. Though considered less likely, it could withdraw USSR support of Yugoslav claims in Trieste, Italy, and Austria, and could organize and recognize an "independent" Macedonian state aimed at undermining Tito's position in southern Yugoslavia. Even more unlikely, as a final positive political step, it could sever formal Soviet and satellite diplomatic relations with Yugoslavia.

Since the beginning of the year, Yugoslav-Soviet relations have increased in hostility. The intensified Soviet propaganda campaign, however, will probably meet with little success because the Cominform charges are becoming increasingly hollow and ineffective. On the other hand, Cominform propaganda tactics have had the effect of rallying the extensive non-Communist Yugoslav population to Tito's camp. A majority of the Yugoslavs, in spite of their dislike for Tito, would support him rather than contribute to the return of Yugoslavia to Soviet control.

There are certain minority groups in Montenegro, Macedonia, and possibly the other Yugoslav republics, who might attack Tito's regime in exchange for promises of preferential treatment by the USSR. Tito can thwart the potential threat of such groups through his security police. The proclamation of an

"Independent" Macedonia would have little success in gaining the support of any significant number of Yugoslav Macedonians during 1949. Such a proclamation, in any event, is considered unlikely for the immediate future. If seriously threatened at any time in 1949 by the formation of a Macedonian state, Tito could engineer mass deportations of unreliable Macedonians to other areas in Yugoslavia. He could also cut off existing Yugoslav aid to the Greek guerrillas and might even come to some understanding with the Greek National Government.

It is believed that Tito's early conviction that the Kremlin planners did not want a war with the West gave him the courage, initially, to defy the USSR. As he probably still holds to his original estimate concerning Soviet intentions, Tito will react vigorously to any menacing Soviet-Satellite overtures which directly threaten his security. The Soviet leaders, never certain of Tito's reactions or his ability to involve them in an undesired war with the West, will proceed with caution. Tito always has available as a final political counter-measure the threat to charge the Soviet Union with aggression before the United Nations.

3. Economic.

The Soviet-bloc nations can impose many economic sanctions against Yugoslavia. For instance, they can stop their deliveries of industrial equipment and essential raw materials.¹ It is estimated, however, that the Kremlin will not apply total economic sanctions against Yugoslavia in 1949. While such sanctions would not be sufficiently effective to impair seriously the over-all Yugoslav economy, the loss of Yugoslavia's strategic metals would be detrimental to Soviet-bloc economy.

Since 1946 there have been few signs of economic deterioration in Yugoslavia. In 1948 the per capita grain production approximated the prewar levels and food shortages created by forced exports are expected to be alleviated in 1949. Tito has been able to import petroleum to maintain the restricted use status

¹ There is no conclusive evidence that war material is, or is not, being sent from Soviet-bloc nations to Yugoslavia.

complicated by the Satellite embargoes; production of steel, non-ferrous metals, electric power, textiles, and timber has reached prewar levels, and in each case is continuing to expand; and the transportation system is capable of meeting all foreseeable traffic requirements within 1949.

If the present reduction in Eastern European trade with Yugoslavia is extended to bring a complete cessation of trade, Tito's economy will not be seriously damaged, although the loss of Czech and Hungarian machinery and equipment and of Polish and Czech coke will force a somewhat greater dependence on the non-orbit countries for these items.

Yugoslavia, in anticipation of unfavorable relations with the Soviet bloc and uncertainty in its trade dealings with the US, has already concluded several important trade agreements providing for expanded trade with the West.

The Yugoslav economy, while not deteriorating, is not making the industrial expansion envisaged in its unrealistic Five-Year Plan. Even if Yugoslavia were able to procure sufficient foreign exchange to purchase industrial equipment, rapid industrial progress would not be feasible in the near future without a large increase in the skilled labor supply and substantial technical assistance from the West.

Military pressure from the East may eventually necessitate, for the purposes of Western policy, military and economic assistance which would provide Yugoslavia with some means of self-protection. Much depends upon the extent of such military pressure from the East, but the military necessities can be provided by the West for immediate emergency use far more easily than can the means for the production of such military equipment, with greater assurance for effective utilization.

4. Subversive.

Under Soviet direction, the Soviet-bloc nations can increase the scope of subversive activities in Yugoslavia. They can infiltrate numerous small anti-Tito bands from contiguous satellite areas in order to disseminate anti-Tito propaganda, enlist recruits, incite local insurrections, perform acts of sabotage,

disrupt communications, and prepare the way for assassination of Tito and his aides. The Soviet-bloc nations can employ aircraft to drop anti-Tito propaganda leaflets and to parachute arms, supplies, and guerrilla warfare specialists to anti-Tito groups.

Although Tito can expect intensification of Soviet-inspired covert guerrilla activity, it is estimated that for at least the remainder of 1949, the effectiveness of such maneuvers or other subversive tactics can be minimized. The vast majority of the Yugoslav Communists probably support Tito's regime. The exceptions constitute about two percent (approximately 8,000) of the total party membership. These anti-Tito elements are divided roughly into three main categories: (1) old line Communists who spent many years of their lives in the Soviet Union and whose sympathies are with the Kremlin; (2) opportunistic elements who are dissatisfied because

they failed to gain high positions in the government commensurate with their war-time records; and (3) Communists who left Yugoslavia as refugees before the war and have subsequently been repatriated. This latter group had no contact with the Partisan movement and hence feel no particular loyalty for Tito. These pro-Cominform groups are allegedly attempting to organize active opposition to the Tito regime by concentrating on wresting control away from the army. Tito, apparently aware of the presence of such a potentially dangerous opposition, is retiring these elements as a group to the background in Party affairs and replacing the known un-reliables with young stalwarts. Tito's secret police (UDB) are considered loyal and will provide stern counteraction to any campaign to infiltrate Cominform agents extensively, perpetrate widespread acts of sabotage, foment disturbances or insurrections, or organize assassination plots.

APPENDIX

ESTIMATE OF YUGOSLAVIA'S ECONOMIC POSITION

1. Agriculture.

Yugoslavia has an agricultural economy, without appreciable benefits of mechanization. During 1948 the per capita production of grain approximated the prewar level which permitted annual exports of some 650,000 metric tons. This production is maintained by backward methods and is not dependent upon mechanization. About half of Yugoslavia's present usable tractors were imported during the postwar period. Any substantial additions of tractors and motor-driven agricultural machinery in the near future would be of little benefit except on existing collective and state farms because of the poor condition of the roads in the rural areas, the hilly terrain, and the limited number of trained operators. At the present time there are reportedly fewer than 6,000 tractors in Yugoslavia which can service the approximately 1,375,000 acres comprising the collective and state farms. Since the acreage of these farms represents less than three percent of the total acreage, a cut in production because of immobilized tractors would hardly cripple the economy of the country. However, any great increase in tractors and motor-driven machinery might handicap the entire economy because of the related supply problems, such as the greater need for petroleum and spare parts.

Unlike some of the Satellites, Yugoslavia has no serious shortage of draft animals. The number of horses as of 1 January 1949 is estimated at 990,000 or 82 percent of prewar, and 105 percent of 1 January 1948. Cattle totals are nearly at the prewar level.

Food shortages in 1948, especially in fats and oils, were not due to lack of basic supplies, but to government policy, such as the hog confiscation in September and large exports of grains and meat. The food situation

should improve in 1949. Such improvement is not dependent upon farm machinery imports from the West, nor will it be seriously affected by an embargo from the Soviet bloc.

2. Petroleum

Before World War II, Yugoslavia produced approximately 1,000 metric tons of crude petroleum a year, while the present estimated annual output is 40,000 tons. Prewar annual domestic requirements are estimated to be around 145,000 tons of petroleum products. At present, if military requirements are added to estimated civilian needs, Yugoslav requirements are approximately 400,000 tons. Under the Five-Year Plan, 500,000 tons of annual crude petroleum output is to be achieved by the end of 1951. Such an increase in production depends entirely upon the importation of oil drilling machinery, for exploration and exploitation. It is extremely unlikely, however, that Yugoslavia will be able to obtain sufficient equipment, either at home or abroad, to realize its goal.

In addition, the government planned to place in operation a 300,000-ton cracking plant by the beginning of 1950. Yugoslavia is entirely dependent on imports to equip this plant. In view of the limited number of sources of equipment and the possible difficulty in acquiring it, it is inconceivable that this refinery can be placed in operation by 1950, or soon thereafter. Yugoslavia, itself, is probably capable of maintaining the existing oil machinery inventory but is not capable of manufacturing additions.

The problem of insufficient supplies of petroleum products which existed in Yugoslavia before the rift was aggravated by the embargo applied during the summer of 1948 by the other Eastern European countries. However, primarily as the result of a trade agreement with the UK, it appears likely that Yugo-

slavia will be able to obtain sufficient foreign crude oil to meet its 1949 requirements. There is considerable evidence, moreover, that through June 1948, postwar imports of aviation and motor gasoline were sufficient to maintain the restricted level of consumption in effect since the close of World War II, until imports from the West were received.

Unless Western Europe imposed a total embargo, the denial of petroleum products and crude petroleum by the Soviet bloc would not have serious effects upon the Yugoslav economy, particularly since Yugoslavia has been receiving these products under extensive agreements with the UK, Trieste, Tangiers, Italy, and the Anglo-Iranian Oil Company.

3. Steel.

At present, in spite of war damage and improper maintenance, annual Yugoslav raw steel production exceeds 1939 levels by 21,000 metric tons, a 10 percent increase. The Yugoslav Five-Year Plan calls for a production of 760,000 metric tons in 1951; but plan fulfillment is dependent upon steel industry modernization and expansion, as recently proposed by a British engineering concern. This will require Western assistance. Proposals by British technicians would provide total facilities (including coke plants, steel plants, rolling mills and blast furnaces) for reaching the Five-Year Plan goal.

However, Yugoslavia has facilities for maintaining the present inventory of steel processing equipment, unless such facilities are diverted to other uses, such as military. Even without implementation of the British technical plans, the Yugoslav steel industry should be able to increase production slowly. Total embargo by the USSR and its Satellites is not likely to put a strain on Yugoslav steel production facilities; however, inability to acquire equipment and technical assistance from the West would slow development of the industry.

4. Coke.

At the present time Yugoslavia has no coking industry, nor does it have any known deposits of metallurgical coking coal. It is entirely dependent upon outside sources of sup-

ply for metallurgical coke for the iron and steel industry. An estimated 550,000 metric tons will have to be imported in 1949. Of this amount, 50,000 tons will be received from Poland and a quantity valued at 10 million crowns will be received from Czechoslovakia. During the latter part of 1948, Yugoslavia joined the ECE Coal Commission and asked that 50,000 tons of Bizonia coke be allocated during the first quarter of 1949. In addition, during the first quarter of 1949, 54,000 tons were promised by Czechoslovakia and 15,000 by the Netherlands. For the second quarter, Czechoslovakia agreed to ship 66,000. In the event deliveries from Eastern Europe (Poland and Czechoslovakia) are cut off, Yugoslavia can probably obtain sufficient coke to meet requirements through the Coal Commission from Western Europe.

5. Non-Ferrous Metals.

It is estimated that toward the end of 1948, production of non-ferrous metals, primarily copper, lead and zinc, approximated the pre-war level as shown in the following table:

<i>Smelter</i>		1939	1940	1948
<i>Production</i>				
Copper.....	41,993	42,951	41,000	
Lead.....	10,652	32,949	28,000	
Zinc.....	4,182	4,989	5,000	

The Five-Year Plan provides for a goal of 36,000 tons of refined copper by 1951. However, Yugoslavia's one refinery has only 19,000 tons annual maximum capacity. To provide for the planned increase in total production of refined copper, Yugoslavia would be obliged to import expensive refining equipment. In the production of smelted copper Yugoslavia has not reached the maximum capacity of the existing plant equipment near the Bor Mines. It is estimated that the output of the Bor Mines, of smelted copper, could be increased to 60,000 tons annually, providing repairs and parts replacements could be procured.

Although the Five-Year Plan predicted a rise in the production of lead (smelter) from 10,600 tons in 1939 to 65,000 in 1951 and zinc (smelter) from 4,100 to 20,000 tons, production of these two metals is reported to be 28,000 and 5,000 tons respectively for 1948, the

second year of the Plan. During 1948, internal consumption of lead and copper concentrates was higher than prewar, leaving export capacity for lead concentrates at an annual rate of 40-60,000 tons—approximately one-half of prewar—and for blister copper at 30-40,000 tons. It is reported that during 1949 from 65-70 percent of these metals had gone to Eastern European countries, and in 1949 the proportion will probably still be high.

Zinc production is expected to follow the lead output, proportionately.

In 1942 Yugoslavia was the ninth largest copper producer in the world, with an output of 49,895 tons or 1.8 percent of the world's total production. The importance to Europe of Yugoslavia's lead and zinc supply is indicated by the fact that during the war this country supplied one-third of the lead and about 6 percent of the zinc to Axis-Occupied Europe. While the total output of Yugoslavia's non-ferrous metals is a comparatively small percent of world production, it is of great importance to the Soviets and the Satellite countries, and the demand for it by the Soviet bloc will act as a deterrent to complete severance of trade relations. Present trade treaties with Soviet orbit countries and negotiations for new trade agreements indicate that Yugoslavia will continue, as in the past, to ship sizable quantities of these metals to the East.

It seems unlikely that production of these metals will be expanded to any marked degree without added necessary equipment for both expansion and needed repair and replacement of present machinery.

6. Power.

In spite of what would seem to be a relatively weak position in regard to the Yugoslav power industry, there is considerable evidence to prove that electric power output is appreciably greater than in prewar times.

Production of electricity in Yugoslavia is about evenly divided between thermal and hydro resources. In the absence of recent statistics, it is estimated that the division is about 55 percent thermal and 45 percent hydro, although it may now be approaching a 50-50 basis, as strong emphasis is being

placed on the development of excellent water power resources. The machinery and equipment for this development, as well as for replacements and expansion in the thermo plants, must come from abroad, since Yugoslav manufacturing facilities, in spite of great efforts to provide them, are entirely inadequate to supply the nation's needs in meeting the Five-Year Plan objectives. The Five-Year Plan and goals for the electric industry contemplate a fourfold increase in electric power output as compared to prewar, a goal that would tax the resources of any country, even under ideal conditions of supply and technical-industrial ability.

It is known that there have been important additions to the national electric power generating capacity since the war's end, and orders for large generating units have been placed in Switzerland and Italy within the past year. While inability to obtain electrical machinery and equipment from the West would surely result in failure to accomplish the planned industrialization, it would not significantly impair electric power output. Eastern European exports, with the exception of those from Czechoslovakia, have been of no real consequence in the development of Yugoslav electric power, and the Soviet bloc could, therefore, exert little economic pressure to disrupt the industry.

7. Timber.

Timber products have always represented one of Yugoslavia's most important export items. Prewar exports averaged approximately 1,000,000 metric tons, or 1,500,000 cubic meters and went largely to Germany and Western Europe in exchange for manufactured goods. Since the war, until the break with the Cominform, most of Yugoslavia's timber exports have gone to Eastern Europe and the USSR. Total timber production for 1948 is estimated at 23,000,000 cubic meters. This is about 2 percent greater than the 1937 production. Present indications are that the 1949 cut will slightly exceed 1948. Machinery and equipment for further development of the timber industry is being sought from the West.

Exports for 1949 may reach 1,700,000 cubic meters. The 1949 trade agreements and trade negotiations indicate that 80 to 90 percent of the Yugoslav timber entering international trade channels will go to non-orbit countries. For example, the trade agreement with the United Kingdom calls for deliveries of 845,000 cubic meters, which accounts for almost 50 percent of the total estimated 1949 exports. It is probable that there would have been an eventual increase of Yugoslav timber exports to Western Europe had there been no break with the Cominform. There is no doubt, however, that the Cominform break has accelerated this shift in trade.

8. Textiles.

Before World War II, cotton goods constituted one-half the output of the textile industry in Yugoslavia, woolen goods one-quarter, with silk, linen, and other fiber goods making up the remaining one-quarter.

Although 1948 production of textiles was reported officially at a level somewhat above prewar, not all of the production reached the consumers because of difficulties in the marketing system.

Textile production is estimated as follows:

	1939	1947	1948
	(in meters)		
Textiles (cotton and wool)	150,080,000	117,230,000	167,183,000

Yugoslavia has trade agreements with Italy, Poland, India, and Czechoslovakia for importing necessary raw materials, semi-processed and finished textile products. Production in this industry is not significantly dependent on imports from the Soviet orbit.

9. Manufacturing.

The prewar Yugoslav economy supported only four major manufacturing establishments, exclusive of its arsenals. However, during the German occupation, sizable additions to capital equipment were made. In addition, relatively large quantities of equipment were obtained through Lend-Lease, UNRRA, reparations, and postwar trade.

In 1940 there were 756,000 employees engaged in construction, mining, and manufacturing in Yugoslavia, out of a total popula-

tion of approximately 15.8 million. The proportion of skilled workers was low compared with Western standards, and even compared with some other Eastern European countries. Many of these industrial workers, particularly from the skilled group, were lost as a result of deportations during World War II. It is estimated that toward the end of 1948 the total number of industrial employees had increased to approximately 950,000, but the number of skilled workers was still small. In order to meet the labor requirements for rapid industrialization under the Five-Year Plan, there must be large increases in the size of the skilled labor force. Yugoslavia cannot provide teaching cadres for such a rapid expansion.

Uncoordinated implementation of certain parts of the Five-Year Plan by the Yugoslav theoreticians and planners has served only to worsen the inherent difficulties of the Plan itself. As a result, the limited resources with which Yugoslavia has to pay for industrial imports have been and are being ineffectively dispersed by investment in capital goods, and the purchase of excessive quantities of industrial materials, such as ball bearings and abrasives, which they are not prepared to use immediately. Although Yugoslav leadership has called attention to the fact that many new factories stand empty of machinery and that other factories stand with unused machinery, the Yugoslav purchasing policy continues to be one of buying, not for immediate need and conversion to useful products, but of purchasing quantities and items which will fit into the Five-Year Plan.

Available evidence would indicate that Yugoslav manufacturing facilities have at least doubled in the postwar period over prewar times. German additions, reparations, contributions under Lend-Lease and UNRRA, and purchases from abroad, as well as small amounts of manufactured equipment within Yugoslavia, have added quantitatively to Yugoslav manufacturing equipment inventory. Proper results are not forthcoming from such equipment because of: (1) poor management which fails to dovetail supply, production and distribution; (2) poor purchasing policy; (3) lack of skilled labor and

knowledge in operating such equipment as exists; (4) inability to direct efficiently factory production; and (5) normal difficulties in the transition to a planned economy. In spite of these difficulties, an inordinately large part of the fabricating facilities have been utilized for the production of war material, which Yugoslavia can ill afford if it is to advance its industrial economy. Therefore, in spite of the reportedly poor condition in the field of industrial equipment, it would seem that Yugoslavia has manufacturing facilities on which it can draw for improving its existing inventory of equipment, if it is believed that the external security position can afford a reduction in military expenditures.

10. Transport.

Although Yugoslav economy is widely decentralized, making the country more dependent on transportation than would otherwise be the case in a nation with so young an industrial economy, the country is in no danger of a transport collapse. The transportation system, although ailing, is capable of coping with foreseeable traffic requirements for a year and possibly longer, regardless of an Eastern economic blockade. The system, however, will not sustain planned industrial expansion unless, as in the past, transport equipment and components are obtained from the West or from the Satellites.

The railroads are the most significant factor in the Yugoslav transport system. Currently they are carrying freight traffic at approximately 180 percent of the 1938 rate. Inland waterways move only a small percentage of the total traffic—six percent in 1948, seven percent in 1938. Much of it was in transit traffic on the Danube. Highway transport traffic has not yet developed enough to have been tabulated, but an increase in the number of vehicles and road improvement have made it possible for highway transport to contribute toward making the over-all transport system stronger and more elastic than before the war. Present tonnage of ocean shipping amounts to only 43 percent of prewar. The slow rate of recovery of the merchant marine may be due, in part at least, to the fact that the postwar trade which has been predominantly with the

East, has moved largely by rail. Civil aviation has developed to a considerable extent since the war, but the shortage of aviation gasoline is requiring curtailment of traffic.

In spite of the substantial volume of traffic now being carried by the railroads as compared with prewar times, reports are repeatedly being received regarding inefficiency of the system. This situation is caused largely by the shortage of trained railroad operating and maintenance personnel, by the lack of qualified railroad administrators, and by frequent lack of cooperation from industry in planning and receiving shipments. Unless improvement in the utilization of railroad facilities is attained, traffic delays and periodic congestion of local traffic will continue, even though currently the railroads appear to be achieving the planned goals with respect to rolling stock and mileage.

11. Foreign Trade.

In 1948, the value of Yugoslavia's foreign trade is estimated to have exceeded the prewar level. Exports in this year, totaling approximately \$210,000,000 are believed to have approached the maximum foreseeable export potential, and expansion of exports in 1949, if any, will probably be small.

While prewar exports were shipped almost entirely to the West, primarily to Germany, the majority of postwar exports have gone to the Soviet bloc. On the basis of 1947 trade and incomplete data for 1948, between 50 percent and 60 percent of the exports went to Eastern Europe, with Czechoslovakia, USSR, Poland, and Hungary as recipients of the largest amounts. In 1948, it is estimated that 65 percent to 70 percent of Yugoslavia's non-ferrous metals exports moved into this area. Other leading exports were ferrous metals, agricultural products, timber, and tobacco. Yugoslavia's most critical imports from the Soviet orbit have been petroleum, coal, coke, semi-finished steel, and industrial machinery and equipment.

Since the rift, the only complete Soviet-Satellite embargo against Yugoslavia has been on shipments of petroleum. However, deliveries of other items have been reduced in amount. It is believed that, in view of the

aforementioned strategic items received from Yugoslavia, the USSR and the Satellites would be reluctant to sever completely their trade relations. Thus far in 1949, indications are that, despite announced reductions, Soviet bloc-Yugoslav trade will continue, in items of primary importance to their respective economies, on a strict basis of economic self-interest. This trade reduction with the East will enable Yugoslavia to direct a greater portion of its exports to the West in exchange for industrial equipment and machinery, although the expansion in this trade will depend largely on the type of commodities available for export to the West, and the volume of Western financial assistance.

The following factors will limit Yugoslavia's ability to expand her trade with the West in 1949:

- (1) Serious shortage of foreign exchange and gold reserves;
- (2) Continued exports, to the East, of foreign exchange producing commodities;
- (3) Commitments to the West on payment of nationalization claims;
- (4) Anticipated reduction of major food exports designed to alleviate domestic shortages.

Yugoslavia, fully appreciating this deficiency, is currently attempting to procure substantial Western loans, without which trade expansion will be far from sufficient to meet requirements of the Yugoslav Five-Year Plan.