

Top Secret



DIRECTORATE OF
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State Department review completed

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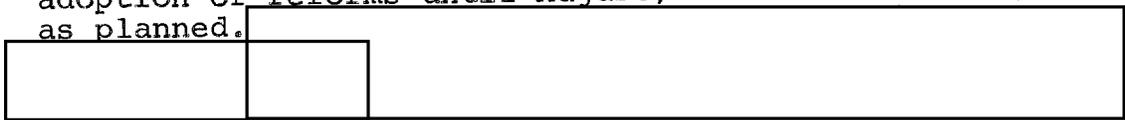
YUGOSLAVIA: The government is seeking financial assistance to help stabilize the economy while major political and economic reforms are effected.

Toma Granfil, a member of the Federal Executive Council, has told the US ambassador that his government intends to use the reform process to enter into more open collaboration with the world economy and to introduce a more democratic society. In the meantime, he asserted, the government needs \$600-\$700 million during 1971 and 1972 to increase its hard currency reserves so that domestic economic stability can be maintained and contribute to a smooth change of government organization and economic policies. Granfil asked that the US contribute 20 percent of this amount and help Yugoslavia to get the rest from its other major non-Communist trading partners and international lending organizations.

Granfil implied that the introduction of a more democratic political system had been resisted, but he asserted that all republics now accept this goal, as well as a continuing Western economic orientation. He acknowledged, however, that various groups in Yugoslavia differ on how to achieve such goals and are still far apart on many issues. The sharpest divisions are caused by traditional animosities among the federation's various nationalities and by differences in the stages of economic development of the various regions. If such differences cannot be resolved, he said, they will inevitably bring into question national cohesion and security.

Granfil is not greatly exaggerating the breadth of proposed reforms or the internal dangers which they pose. The Federal Assembly's commission for drafting the constitutional amendments necessary to implement the reforms finished its frequently heated work only on 11 February, weeks behind schedule. This in turn will delay other steps and has delayed adoption of reforms until August, rather than in May as planned.

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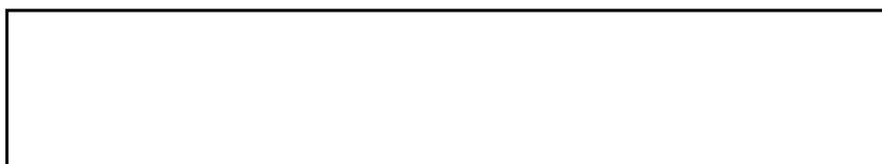


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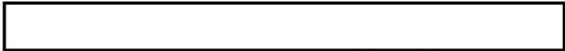
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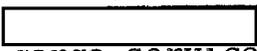


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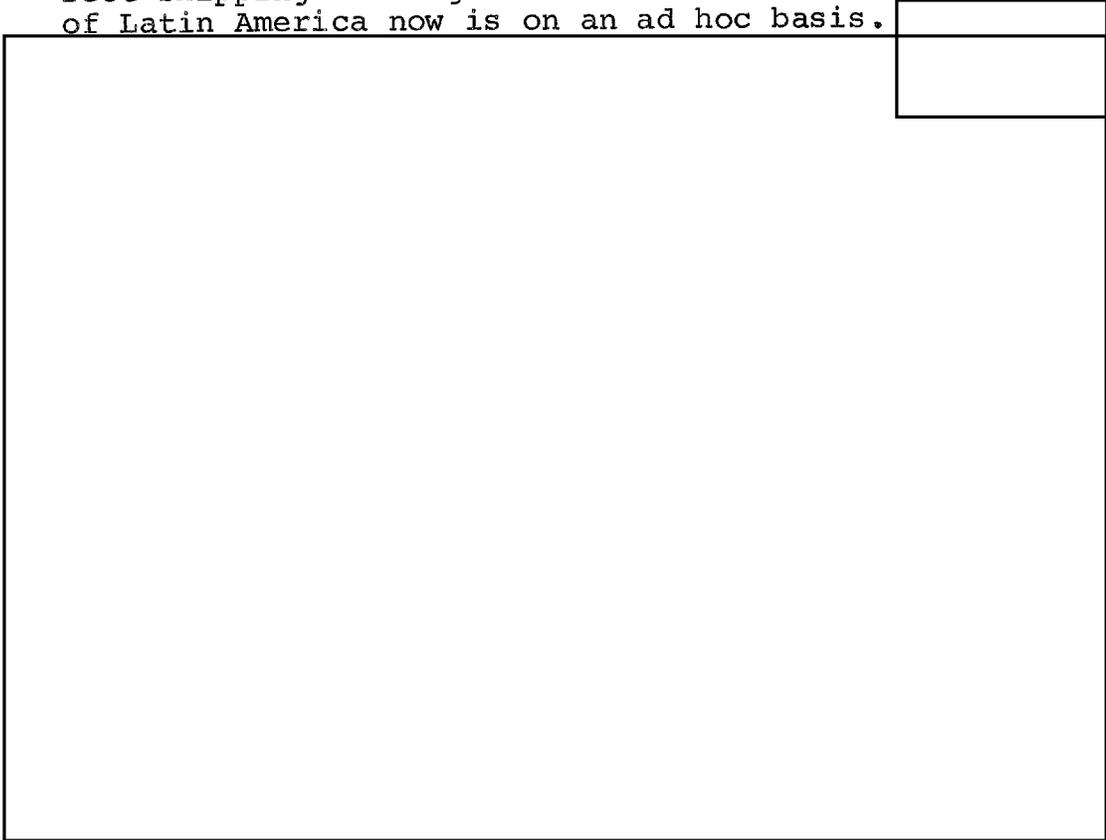


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 the Soviets intend to begin scheduled cargo service from Europe to the west coast of South America on 1 July, calling at Colombia, Ecuador, Peru, and Chile. With the exception of the US east coast and most of Central America, this area is virtually the last remaining region in the world not served by regular Soviet commercial shipping; Soviet cargo service to the east coast of South America has been fairly active for some time. This latest move would facilitate any expansion of trade because direct shipping linking the USSR and the Pacific coast of Latin America now is on an ad hoc basis.

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