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TELNO 302 OF 11 NOVEMBER 1983

INFO ROUTINE PARIS, WASHINGTON, BONN, UKDEL NATO, UKDEL EEC,
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VISIT OF THE YUGOSLAV PRIME MINISTER TO BRITAIN 15 19 NOVEMBER.

1. FOR YUGOSLAVIA, MRS PLANINC'S VISIT TO BRITAIN IS THE MOST
IMPORTANT FOREIGN TRIP SHE WILL HAVE MADE SINCE SHE BECAME
PRIME MINISTER IN MAY 1982. HER OBJECTIVES WILL BE:

(A) TO SEEK A REAFFIRMATION OF BRITISH INTEREST IN THE MAINTENANCE
OF YUGOSLAVIA'S INDEPENDENCE AND NON-ALIGNMENT, AND TO EXCHANGE
VIEWS ON EAST-WEST RELATIONS AND OTHER MAJOR INTERNATIONAL ISSUES
WITH THE PRIME MINISTER AND YOU:

(B) TO EXPLAIN HER GOVERNMENT'S LONG-TERM PLANS FOR MAJOR REFORMS
IN THE STRUCTURE OF THE YUGOSLAV ECONOMY AND THE INTERNAL POLITICAL
PROBLEMS SHE FACES IN IMPLEMENTING THEM, AND TO SEEK AN EXPRESSION
OF BRITISH POLITICAL SUPPORT FOR HER POLICIES:

(C) DO DISCUSS THE NEED FOR WESTERN FINANCIAL ASSISTANCE IN MEETING
YUGOSLAVIA'S DEBT SERVICING OBLIGATIONS FOR 1984, TO EXPLAIN
HER GOVERNMENT'S OBJECTIONS TO A PARIS CLUB RESCHEDULING, AND
TO SEEK BRITISH COOPERATION:

(D) TO ASK FOR BRITISH HELP IN FACILITATING A FURTHER INCREASE
TO YUGOSLAV EXPORTS TO BRITAIN AND THE COMMUNITY AS A WHOLE
THROUGH A RELAXATION, WHERE POSSIBLE, OF IMPORT RESTRICTIONS

TO YUGOSLAV EXPORTS TO BRITAIN AND THE COMMUNITY AS A WHOLE THROUGH A RELAXATION, WHERE POSSIBLE, OF IMPORT RESTRICTIONS AND BY OTHER MEANS.

FOREIGN POLICY QUESTIONS

2. HER PREOCCUPATION WITH THE ECONOMY HAS LEFT MRS PLANINC LITTLE TIME FOR PERSONAL INVOLVEMENT IN FOREIGN POLICY, BUT SHE WILL BE FULLY BRIEFED TO EXPRESS YUGOSLAVIA'S DEEP CONCERN ABOUT THE PRESENT STATE OF EAST-WEST RELATIONS. THE YUGOSLAVS SEE THE SOVIET UNION AS THE MAJOR THREAT TO THEIR INDEPENDENCE, AND FEAR THAT GROWING EAST-WEST TENSION MAY EVENTUALLY INCREASE SOVIET TEMPTATIONS TO MEDDLE IN THEIR AFFAIRS, PARTICULARLY IF INTERNAL POLITICAL TENSIONS AMONG THE CONSTITUENT REPUBLICS OF THE FEDERATION WERE TO OFFER THE RUSSIANS SOME ROOM FOR MANOEUVRE. THEY ARE ROBUST AND REALISTIC (AND PRETTY WELL INFORMED) IN THEIR ASSESSMENT OF THE SOVIET LEADERSHIP BUT THEIR VULNERABLE POSITION OBLIGES THEM TO PRESERVE A FAIRLY EVEN-HANDED PUBLIC STANCE IN EAST-WEST RELATIONS. THEY ARE ALSO FRANKLY CRITICAL OF THE TONE OF PRESIDENT REAGAN'S PUBLIC PRONOUNCEMENTS ABOUT THE SOVIET UNION WHICH THEY SEE AS BOUND TO INDUCE A DANGEROUS MOOD OF TRUCULENCE IN MOSCOW. THEY ARE WORRIED ABOUT THE RISK OF SUPER-POWER CONFRONTATION IN THE MIDDLE EAST, IN PARTICULAR AS A RESULT OF THE AMERICANS BEING PROVOKED INTO DIRECT INTERVENTION. ON THIS AND OTHER THIRD-WORLD PROBLEMS (CENTRAL AMERICA, INDO-CHINA, NAMIBIA, ETC) THEY ARE MUCH INFLUENCED BY THEIR DEVOTION TO THE NON-ALIGNED MOVEMENT (NAM) AND THEIR CLOSE POLITICAL AND COMMERCIAL LINKS WITH COUNTRIES AND OTHER LEADERS OF THE THIRD WORLD. THEY HAVE CONSISTENTLY PLAYED A MODERATING ROLE IN THE NAM AND THE G77 AND, THOUGH THEIR INFLUENCE HAS INEVITABLY DECLINED SINCE TITO'S DEATH, THEY DESERVE ENCOURAGEMENT IN THIS ROLE.

YUGOSLAV ECONOMY

3. UNDER A SERIES OF INEFFECTUAL GOVERNMENTS DURING TITO'S LAST YEARS THE YUGOSLAV ECONOMY HAS GOT INTO A SERIOUS MESS, AND MRS PLANINC AS THE FIRST POST-TITO PRIME MINISTER IS DOING HER BEST TO RESCUE IT WITH THE AID OF A RELATIVELY ABLE TEAM OF TECHNOCRAT MINISTERS. SHE HAS BUILT UP A REPUTATION AS A TOUGH AND COURAGEOUS POLITICIAN CAPABLE OF DEFENDING A COHERENT FEDERAL POLICY AGAINST BITTER RESISTANCE FROM REGIONAL VESTED INTERESTS AND HAS ACQUIRED A GOOD DEAL OF PERSONAL POPULARITY. SHE IS WELL AWARE OF THE CAUSES OF THE ECONOMIC CRISIS (DECENTRALISATION OF ECONOMIC POWER UNDER THE 1974 CONSTITUTION, INEFFICIENT AND WASTEFUL OVERINVESTMENT, AND FRAGMENTATION OF INDUSTRIAL MANAGEMENT THROUGH THE SELF-MANAGEMENT SYSTEM LEADING TO LOW PRODUCTIVITY, LACK OF COORDINATION AND UNCONTROLLED WAGE AND PRICE INCREASES) AND IS FULLY COMMITTED TO THE BROAD PROGRAMME OF ECONOMIC "STABILISATION" SET OUT BY THE KRAJGHER COMMISSION TO CORRECT THESE FAULTS. BUT THOUGH THIS PROGRAMME HAS BEEN ENDORSED BY THE FEDERAL ASSEMBLY AND PARTY LEADERSHIP ITS IMPLEMENTATION IS BEING SERIOUSLY HAMPERED BY FIERCE OPPOSITION FROM SHIFTING COALITIONS OF REGIONAL INTERESTS AND THE GOVERNMENT SEEMS RECENTLY TO BE GETTING LESS THAN WHOLEHEARTED SUPPORT FROM THE PARTY AND STATE PRESIDENCIES IN WHICH THESE INTERESTS ARE STRONGLY REPRESENTED. IT WILL HELP MRS PLANINC TO PUSH HER POLICIES THROUGH IF SHE CAN DEMONSTRATE THAT WITHOUT THEM YUGOSLAVIA

THROUGH IF SHE CAN DEMONSTRATE THAT WITHOUT THEM YUGOSLAVIA RISKS LOSING THE POLITICAL AND ECONOMIC SUPPORT FROM THE WEST ON WHICH ITS INDEPENDENCE AND SURVIVAL DEPEND.

BALANCE OF PAYMENTS

4. THERE HAS BEEN A MARKED IMPROVEMENT IN EXPORTS TO THE CONVERTIBLE AREA IN 1983. THIS IS LARGELY DUE TO A MASSIVE DEVALUATION OF THE DINAR BUT ALSO TO A DELIBERATE POLICY OF ORIENTING YUGOSLAV INDUSTRY TOWARDS EXPORT MARKETS, AND THERE IS THEREFORE A REASONABLE CHANCE THAT THE TREND CAN CONTINUE. IMPORTS DROPPED SHARPLY THIS YEAR, LEADING TO STAGNATION IN PRODUCTION AND SEVERE SHORTAGES OF SOME COMMODITIES. THEY ARE BOUND TO RISE IN 1984, BUT YUGOSLAVIA MAY NEVERTHELESS ACHIEVE A SURPLUS ON CURRENT ACCOUNT BY THE END OF 1984 AFTER A DEFICIT OF US DOLLARS 1.4 BILLION IN 1982 - A CONSIDERABLE ACHIEVEMENT WON AT THE EXPENSE OF A SERIOUS FALL IN THE STANDARD OF LIVING. NONETHELESS DEBT SERVICING OBLIGATIONS IN AT LEAST THE NEXT TWO YEARS CANNOT BE MET WITHOUT INTERNATIONAL HELP, AND THE YUGOSLAVS ARE DETERMINED TO PAY THEIR DEBTS. THEY ARE HOWEVER EQUALLY DETERMINED TO AVOID A GENERAL RESCHEDULING OPERATION, WHICH THEY WOULD SEE AS A SIGN OF LACK OF WESTERN CONFIDENCE AND AS A POLITICAL RESUFF AND WHICH WOULD THEREFORE ALMOST CERTAINLY LEAD TO THE RESIGNATION OF MRS PLANINC'S GOVERNMENT. THEY REALISE THAT ANY 1984 ASSISTANCE PROGRAMME WILL NEED TO CONTAIN A LARGE ELEMENT OF REFINANCING, BUT WILL HOPE FOR A SYMPATHETIC RESPONSE TO THEIR REQUIREMENT, ENDORSED BY THE IMF, FOR SOME NEW CREDITS TO ENABLE THEM TO RESTRUCTURE INDUSTRY ON MORE PRODUCTIVE LINES AND TO STRENGTHEN THEIR RESERVES.

TRADE

5. YUGOSLAV EXPORTS TO BRITAIN AND OTHER EC COUNTRIES HAVE DONE WELL THIS YEAR BUT THERE ARE STILL SUBSTANTIAL TRADE DEFICITS AND MRS PLANINC WILL NO DOUBT PLEAD FOR AN EASING OF TRADE RESTRICTIONS. SHE IS HOWEVER WELL AWARE THAT THE MAIN REQUIREMENT IS FOR GREATER YUGOSLAV EFFORTS AT MARKETING THEIR EXPORTS, AND UNDERSTANDS THE NEED FOR COMMUNITY COUNTRIES TO PROTECT SENSITIVE INDUSTRIES. SHE WILL I THINK BE CONTENT WITH A SYMPATHETIC HEARING.

PERSONAL

6. A SMALL, NEAT WOMAN WITH AN AIR OF QUIET AUTHORITY, MRS PLANINC HAS A REFRESHINGLY CLEAR AND DIRECT MANNER AND AVOIDS THE CLUMSY AND POMPOUS JARGON SO COMMON IN GOVERNMENT LEADERS. SHE WORKS LONG HOURS, AND THE YUGOSLAV SYSTEM REQUIRES HER TO SPEND AN INORDINATE AMOUNT OF TIME IN CONSULTATION AND PERSUASION AT MEETINGS OF THE ASSEMBLY AND NUMEROUS INTER-REPUBLICAN COMMITTEES. BATTLING FOR HER POLICIES IN THESE CONDITIONS HAS BEEN A TIRING BUSINESS BUT SHE STILL MANAGES TO LOOK FRESH AND WITH LUCK WILL KEEP GOING FOR THE REST OF HER FOUR-YEAR TERM.

SCOTT.