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10 DOWNING STREET

From the Private Secretary

18 November 1983

Dear Roger,

Visit of the Prime Minister of Yugoslavia

I enclose a record of the plenary talks which took place here on 16 November.

I am copying this letter and enclosure to John Kerr (HM Treasury).

Yours ever

John Cole

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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RECORD OF TALKS BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER
OF YUGOSLAVIA AT 1200 HOURS ON WEDNESDAY 16 NOVEMBER 1983 AT
10 DOWNING STREET

Present:

The Prime Minister

Sir Geoffrey Howe

Mr. Paul Channon

Sir J. Bullard

Mr. J.B. Unwin

Mr. K.B.A. Scott

Mr. B.G. Cartledge

Mr. A.J. Coles

Mr. J.A. Birch

Madame Milka Planinc

HE Dr. Dragi Stamenkovic,
Yugoslav Ambassador

Mr. Zivorad Kovacevic,
Member of the Federal
Executive Council

Mr. Mirko Ostojic,
Deputy Foreign Minister

Mr. Kadir Alijagic,
Deputy Foreign Trade Minister

Mr. Dragoljub Kontic,
Foreign Affairs Adviser

Mr. Vladislav Jovanovic,
Ministry of Foreign Affairs

Mr. M. Stojanovic,
Yugoslav Embassy

Interpreter

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The Prime Minister welcomed Mrs. Planinc and gave a short account of their tete-a-tete talks, which had concentrated on East/West relations and economic problems. Mrs. Planinc said that she felt amongst friends and invited the Prime Minister to pay a return visit to Yugoslavia. She said that she would like to discuss the world economic crisis and North/South problems.

The Prime Minister said that the prospects of the world economy pulling out of its crisis were better. World oil prices had stabilised, despite earlier fears that there would be further price decreases causing disruption of world trade. The enormous international debt problem was a feature of world recession. The recovery

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of the world economy would help the debtor nations. Britain had been active in helping such countries through the IMF, the Bank of International Settlements and the commercial banks. She admired Yugoslavia's efforts to bring its debt under control. The real origin of the world crisis had been the oil price increases of 1973/74 and of 1979 which drew purchasing power from the industrial countries and gave it to the oil producers in quantities they could not manage. The world economy was disrupted. Britain's philosophy was that a country which took steps to put its house in order deserved the help of the international community. Britain also wanted to increase its trade with developing countries. This was how they would prosper. Britain was determined to beat inflation so that there could be a return to sound and sustained growth.

Mrs. Planinc agreed with the analysis. Today's recession had a qualitative difference from the crisis of 1929 because of inter-dependence in the world economy. Yugoslavia had made great strides but it was still "a developing country in an advanced state". Its own experience showed how the economic shocks of the past decade had affected the developing world. Yugoslavia had reacted too slowly to the oil price rise. It had been hit even more severely by the rise in interest rates on the loans needed for economic development. Interest payments annually now exceeded \$2 billion. The practice of importing capital without ensuring that there were adequate export markets had brought Yugoslavia to its present position. In developing countries the situation was even worse. Many of them were borrowing for infrastructure projects which did not directly generate exports. Britain advocated a policy of free trade and it was important that developing countries should be able to participate.

The Prime Minister said there was a dangerous tendency by many countries to be protectionist. Once they started on that road, there was no end to it. It took time to turn round an economy and put in on a sound footing. Britain had taken some difficult steps over the past four years and only now were the fundamentals right.

/ High

High interest rates prevented investment. The Prime Minister had told the United States that their high interest rates were drawing investment funds and preventing recovery in Europe. She asked Mrs. Planinc to give an account of the economic recovery measures in Yugoslavia.

Mrs. Planinc said that the Yugoslav economy had developed rapidly but without becoming sufficiently export orientated. In the early days, foreign trade had been low and had concentrated on the easy markets in Eastern Europe. It had thus become a lazy economy without competition. Trade with the European Community and with the United States, to earn hard currency, was much more difficult. Yugoslavia would like better access to the European Community which would stimulate productivity and lead to joint ventures. It wanted not only to repay its debts but also to play a full part in the world economy. Over the past decade, Yugoslavia had taken annual credits equal to 10% of its GNP. This now had to be returned in much less favourable circumstances. Last year there had been a 10% fall in real incomes, with a total of 20% over the last three years. This was about as much as the population could stand. There would be minimal growth in 1983 but with a 20% increase of exports to the convertible currency areas. It was a major breakthrough. In 1982 the trade deficit had been \$1.4 billion. In 1983 it would be \$300 million and in 1984 there would be a surplus. The Prime Minister commented that this was a striking achievement.

Mrs. Planinc said she did not want to be too optimistic about future trends. Fifteen governments were giving Yugoslavia financial assistance. She was particularly appreciative of the UK financial help, which had been quick and of high quality. Her Government intended to persevere with the same economic policy and hoped that in 1984 the same type of international assistance package would be available as in 1983, but at a lower level. Yugoslavia was not happy to have been a debtor country and was determined to be a responsible member of the world economic community.

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The Prime Minister thanked Mrs. Planinc. The talks had led to a much greater understanding of Yugoslavia's economic policy.

The meeting ended at 1300 hours.

A. J. C.

18 November 1983

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Foreign and Commonwealth Office

London SW1A 2AH

17 November 1983

Dear Sir,

Visit of the Prime Minister of Yugoslavia

I enclose a draft record of the Prime Minister's Plenary talks with Mrs Planinc.

Yours faithfully
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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RECORD OF TALKS BETWEEN THE PRIME MINISTER AND THE PRIME
 MINISTER OF YUGOSLAVIA AT 1200 HOURS ON WEDNESDAY
 16 NOVEMBER 1983 AT 10 DOWNING STREET

Present:

The Prime Minister	Madame Milka Planinc
Sir Geoffrey Howe	HE Dr Dragi Stamenkovic, Yugoslav Ambassador
Mr Paul Channon	Mr Zivorad Kovacevic, Member of the Federal Executive Council
Sir J Bullard	Mr Mirko Ostojic, Deputy Foreign Minister
Mr J B Unwin	Mr Kadir Alijagic, Deputy Foreign Trade Minister
Mr K B A Scott	Mr Dragoljub Kontic, Foreign Affairs Adviser
Mr B G Cartledge	Mr Vladislav Jovanovic, Ministry of Foreign Affairs
Mr A J Coles	Mr M Stojanovic, Yugoslav Embassy
Mr J A Birch	
	Interpreter

1. The Prime Minister welcomed Mrs Planinc and gave a short account of their tete-a-tete talks, which had concentrated on East/West relations and economic problems. Mrs Planinc said that she felt amongst friends and invited the Prime Minister to pay a return visit to Yugoslavia. She said that she would like to discuss the world economic crisis and North/South problems.

2. The Prime Minister said that the prospects of the world economy pulling out of its crisis were better. World oil /prices



prices had stabilised, despite earlier fears that there would be further price decreases causing disruption of world trade. The enormous international debt problem was a ~~new~~ feature of world recession. The recovery of the world economy would help the debtor nations. Britain had been active in helping such countries through the IMF, the Bank of International Settlements and the commercial banks. She admired Yugoslavia's efforts to bring its debt under control. The real origin of the world crisis had been the oil price increases of 1973/74 and of 1979 which drew purchasing power from the industrial countries and gave it to the oil producers in quantities they could not manage. The world economy was disrupted. Britain's philosophy was that a country which took steps to put its house in order deserved the help of the international community. Britain also wanted to increase its trade with developing countries. This was how they would prosper. Britain was determined to beat inflation so that there could be a return to sound and sustained growth.

3. Mrs Planinc agreed with the analysis. Today's recession had a qualitative difference from the crisis of 1929 because of inter-dependence in the world economy. Yugoslavia had made great strides but it was still "a developing country in an advanced state". Its own experience showed how the economic shocks of the past decade had affected the developing world. Yugoslavia had reacted too slowly to the oil price rise. It had been hit even more severely by the rise in interest rates on the loans needed for economic development. Interest payments annually now exceeded \$2 billion. The practice of importing capital without ensuring that there were adequate export markets had brought Yugoslavia to its present position. In developing countries the situation was even worse. Many of them were borrowing for infrastructure projects which did not directly generate exports. Britain advocated a policy of free trade and it was important that
/developing



developing countries should be able to participate.

4. The Prime Minister said there was a dangerous tendency by many countries to be protectionist. Once they started on that road, there was no end to it. It took time to turn round an economy and put it on a sound footing. Britain had taken some difficult steps over the past four years and only now were the fundamentals right.

5. High interest rates prevented investment. The Prime Minister had told the United States that their high interest rates were drawing investment funds and preventing recovery in Europe. She asked Mrs Planinc to give an account of the economic recovery measures in Yugoslavia.

6. Mrs Planinc said that the Yugoslav economy had developed rapidly but without becoming sufficiently export orientated. In the early days, foreign trade had been low and had concentrated on the easy markets in Eastern Europe. It had thus become a lazy economy without competition. Trade with the European Community and with the United States, to earn hard currency, was much more difficult. Yugoslavia would like better access to the European Community which would stimulate productivity and lead to joint ventures. It wanted not only to repay its debts but also to play a full part in the world economy. Over the past decade, Yugoslavia had taken annual credits equal to 10% of its GNP. This now had to be returned in much less favourable circumstances. Last year there had been a 10% fall in real incomes, with a total of 20% over the last three years. This was about as much as the population could stand. There would be minimal growth in 1983 but with a 20% increase of exports to the convertible currency areas. It was a major breakthrough. In 1982 the trade deficit had been \$1.4 billion. In 1983 it would be \$300 million and in 1984 there would be a surplus.

The Prime Minister

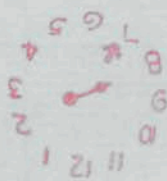


The Prime Minister commented that this was ^{a striking} ~~an amazing and~~ commendable achievement.

7. Mrs Planinc said she did not want to be too optimistic about future trends. Fifteen governments were giving Yugoslavia financial assistance. She was particularly appreciative of the UK financial help, which had been quick and of high quality. Her Government intended to persevere with the same economic policy and hoped that in 1984 the same type of international assistance package would be available as in 1983, but at a lower level. Yugoslavia was not happy to have been a debtor country and was determined to be a responsible member of the world economic community.

8. The Prime Minister thanked Mrs Planinc. The talks had led to a much greater understanding of Yugoslavia's economic policy.

9. The meeting ended at 1 p.m.



17 NOV 1983



With the compliments of

THE PRIVATE SECRETARY

Any objection?

I leave you.

W. H. U. M.

FOREIGN AND COMMONWEALTH OFFICE
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