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Departmental Series
Eastern European Department
DS No 14/83

VISIT OF THE YUGOSLAV PRIME MINISTER TO BRITAIN, 15-18 NOVEMBER

(Her Majesty's Ambassador at Belgrade to the
Secretary of State for Foreign and Commonwealth Affairs)

SUMMARY

1. The highest-level Yugoslav visit to Britain since Tito. Well timed both from the Yugoslav and the British point of view, because of Mrs Planinc's need for international support for her policies and pending decisions on financial support for Yugoslavia in 1984. A great success, with useful talks covering a wide range of subjects in a friendly atmosphere (Paras 1-3).
2. The two Prime Ministers agreed on the need to keep East-West channels open, and on the role which European countries can play in this process (Para 4).
3. The Yugoslav economy still in crisis, but the balance of payments prospect looks brighter and Yugoslavia's requirements for foreign assistance in 1984 are realistic (Para 5).
4. The Secretary of State's talks with Mrs Planinc covered the Non-Aligned Movement (and the need to make it more non-aligned), the Middle East, CDE and Balkan cooperation (Para 6).
5. Yugoslavia has reduced its deficit in British-Yugoslav trade, and Mrs Planinc heard some useful advice on how to improve trade further in both directions (Para 7).
6. A short visit to Scotland made an enjoyable end to the visit. The Ambassador's thanks to all who contributed to its success (Paras 8 and 9).

Belgrade
25 November 1983

Sir,

1. Mrs Milka Planinc, President of the Federal Executive Council, is the most senior member of the Yugoslav leadership to have visited Britain since President Tito's last visit in 1978. Her visit last week, in return for that of Mrs Thatcher as Prime Minister in 1980, was seen by the Yugoslavs as a further sign of continuing British friendship, support and interest in the stability of post-Tito Yugoslavia. The visit had had to be postponed by six months because of the British General Election; but the timing turned out to be particularly good for two reasons. First, I believe that it

gave a welcome boost to the morale of Mrs Planinc and her colleagues at a time when they are having to fight hard against internal resistance to their policies for the modernisation and restructuring of the Yugoslav economy. Second, it came at a time when Western Governments are in the process of reviewing the results of the international package of financial assistance to Yugoslavia in 1983 and considering what form such assistance might take in 1984. For the Yugoslavs, it was also a valuable opportunity to review with one of the leading members of the Western Alliance the present critical phase in East-West relations and other current international problems in which, as a leading member of the Non-Aligned Movement, Yugoslavia takes a close and well-informed interest.

2. The visit was a triumphant success. Mrs Planinc and the members of her party, as well as a number of other leading Yugoslavs from the President of the League of Communists downwards, have already spoken to me in the warmest terms of the friendly welcome which she received from the Prime Minister and yourself and other members of the Government, of the usefulness of the talks, and of the admirable way in which the programme (a copy of which I am enclosing with this despatch) enabled her to pursue the full range of bilateral and international business while allowing a little time for relaxation and for seeing something of Britain, which she was visiting for the first time. The only qualification I have heard was that all the conversations she had were so interesting that she would have liked them to go on much longer, and that the visit was so enjoyable that three days was too short.

3. The conversations between the two Prime Ministers concentrated on East-West relations and the state of the Yugoslav and world economies; the first of these subjects was covered also in your own talks with Mrs Planinc, and the second in her talks with the Chief Secretary of the Treasury and the Secretary of State for Trade and Industry, and in the meeting between her accompanying Minister, Mr Kovačević, and the Governor of the Bank of England. In addition, you discussed with Mrs Planinc the Non-Aligned Movement, the Lebanese crisis and the Gulf War, the Cyprus crisis and Balkan cooperation. British-Yugoslav trade was discussed with Mr Tebbit and at a lively and useful meeting with British businessmen organised by the Confederation of British Industry. As Mrs Planinc herself remarked, bilateral political relations are in such good repair that there were no problems to talk about in this field.

4. Talks on East-West relations with the Yugoslavs are always of interest because of their unique strategic perspective, and Mrs Planinc's style, direct and free of cant, made them particularly refreshing. She expressed with clarity and simplicity Yugoslavia's deep concern about the absence of dialogue or comprehension between Washington and Moscow. She drew attention to what she believed to be illusions on both sides: on the part of the United States, that the Soviet Union could be exhausted by forcing a continuing growth of military expenditure, and on the part of the Soviet Union that the West could be frightened into abandoning its programme of nuclear modernisation. She expressed the belief that the forces - such as they were - for modernisation and liberalisation in the Soviet Union and Eastern Europe could only be fostered in an atmosphere of reduced tension, and that the European countries should do all they could to keep the East-West channels of communication open. In this she was echoing the spirit of the Prime Minister's Guildhall speech of a few days before, and she and Mrs Thatcher found themselves, I believe, on very much the same wavelength in stressing the importance of taking such opportunities as the Stockholm CDE Conference and bilateral contacts with East European countries to maintain the dialogue.

5. On the Yugoslav economic crisis, Mrs Planinc did not conceal the gravity of the problems which her Government faces in seeking to bring inflation under control, to revive flagging industrial production, and to overcome the resistance of local and ideological vested interests in

order to open the economy to market forces. She was able, at the same time, to tell what Mrs Thatcher herself described as a "success story" about the dramatic reduction in Yugoslavia's balance of payments deficit over the last two years. The current account deficit with the convertible currency area is likely to be less than \$500 million this year, with reasonable prospects for a sizeable surplus in 1984. That this has been achieved at the expense of a steep devaluation of the dinar, a rigid control on imports, and a sharp fall in the standard of living of the population has been brought home to all of us in Belgrade as we shiver through the first prolonged power cuts of what promises to be a harsh winter; but Yugoslavia has fulfilled to the satisfaction of the International Monetary Fund the tough economic programme set for her in 1983, and has been able, with a good deal of help from her friends, to meet or postpone all her massive debt obligations. The obligations for 1984 are a little less formidable, but the going at home will be tougher and Mrs Planinc will need all the moral and financial support the West can give her to win through. She spoke with warm appreciation of the timeliness and quality of the British contribution to the 1983 international package. She was realistic enough to stress that the need in 1984 would be primarily for restructuring of debt ("consolidation" is the latest euphemism for rescheduling) rather than for major injections of new credit. At the same time, she emphasised the need for continuing Western export credit guarantees to enable Yugoslavia, through what promises to be a reasonably effective system of controlled imports, to build up her increasingly export-oriented industries. I venture to share her hope that this approach, which offers the best prospect of removing Yugoslavia within a few years from the list of the world's problem economies, will meet with understanding from the Ministers and officials who had the opportunity during her visit to London to assess the realism and courage of Mrs Planinc's policies.

6. The Yugoslav Government are increasingly aware that if their present economic policies fail, they will inevitably be drawn into closer economic dependence on the Soviet Union: this is unofficially known here as "the black alternative". They are fiercely determined to maintain their independence if they can, and it is this which leads them to attach great importance not only to their economic links with the West but also to the Non-Alligned Movement which remains one of the keystones of their foreign policy. You, Sir, gave Mrs Planinc a salutary reminder that the Movement often appears to be less Non-Alligned than we would wish, with particular reference to the unbalanced nature of the communique of this year's New Delhi Summit. This point was well taken, though Mrs Planinc claimed with some justification that Yugoslavia had exerted a useful influence in seeking to bring the movement back to the authentic principles of non-alignment after the Cuban chairmanship. I hope that your remarks will encourage them to persist in this direction, particularly as you accompanied them with a tribute to the useful role which the Non-Alligned Movement could play in a number of international crises - Yugoslavia's recent contacts with Iran, Iraq and in the Lebanon being a case in point. The Yugoslavs were also grateful to be told that we valued the cooperation between the Western and the neutral and non-aligned countries in the CSCE process and looked forward to continuing it at Stockholm: and they reminded you of their view that Ministers should attend the opening of the Stockholm conference to give it the necessary political momentum. They stressed the importance they attached to developing Balkan cooperation while making it clear that they took a healthily realistic view of the prospects for a nuclear-free zone in this part of Europe.

7. There was, as I have said, happily no need during the visit to dwell on bilateral problems outside the field of trade; and even here the remarkable success of Yugoslav exports to Britain in 1983 have greatly reduced the deficit of which the Yugoslavs customarily complain. I have heard since my return that Mrs Planinc very much took to heart the points made to her by the Secretary of State for Trade and Industry and the representatives of British firms whom she met about the need for Yugoslavia herself to make more energetic efforts to promote and market their products

in the British markets and to liberalise the legislation governing foreign investment in joint ventures with Yugoslav enterprises. It is possible that these points, having been made at the highest level, will begin to bear fruit. There are opportunities, even in present difficult conditions, for expanding our trade; and it is a happy omen that I was today, only a week after the visit, able to be present at the opening of the most modern electrolytic tinning plant in Europe, constructed by British industry, which will give Yugoslavia a promising new export potential. I look forward to the time when a more favourable economic climate, and a greater confidence on the part of British banks and credit institutions, will enable us to return to a more vigorous promotion of British trade in this market.

8. After two busy days in London, Mrs Planinc flew to Edinburgh where she had an opportunity to visit a small and successful high-technology factory which has profitable trading links with Yugoslavia in both directions, and to learn something from the Secretary of State for Scotland of the geographical and administrative diversity between the two main parts of the United Kingdom; small beer compared with the situation in this country, but I think a useful as well as enjoyable conclusion to her visit. This was also the only occasion when she and her husband, who accompanied her throughout the visit, were able to do some sightseeing together.

9. I should like, if I may, to express my thanks to the Prime Minister and you, Sir, and your Ministerial colleagues and officials for the warm welcome which you gave to the Yugoslav visitors and for the time and trouble which you took to make their visit so successful. I am sure that these will pay dividends in our future relations. I should also like to pay a special tribute to Group Captain O'Neill and Colonel Worrall of the Government Hospitality Fund, who organised the visit with imperturbable efficiency and imagination. Visits of this kind are something the British do really well, and we all owe the Government Hospitality Fund a great deal for the smoothness and dignity of the arrangements.

10. I am sending copies of this despatch to the Private Secretary at 10, Downing Street; to the Chief Secretary of the Treasury, and the Secretary of State for Trade and Industry, and the Secretary of State for Scotland; to the Private Secretary to the Governor of the Bank of England; to Her Majesty's Ambassadors at Washington, Paris, Bonn, Moscow, Warsaw, East Berlin, Prague, Budapest, Bucharest and Sofia; and to the United Kingdom Representative on the North Atlantic Council.

I am, Sir,
Yours faithfully,

K B A Scott



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BRITISH EMBASSY
BELGRADE

25 November 1983

The Rt Hon Sir Geoffrey Howe QC MP
London

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I am, Sir,
Yours faithfully,

A handwritten signature in dark ink, appearing to read 'K B A Scott', written in a cursive style.

K B A Scott



VISIT OF THE PRESIDENT OF THE FEDERAL EXECUTIVE COUNCIL OF
YUGOSLAVIA, MRS MILKA PLANINC: 15-18 NOVEMBER 1983

Tuesday 15 November

- 1600 Arrive RAF Northolt by special flight from Belgrade.
Met by the Secretary of State for Foreign and
Commonwealth Affairs, the Rt Hon Sir Geoffrey Howe MP.
- 2000 for 2015 Dinner hosted by the Secretary of State for Foreign
and Commonwealth Affairs at 1 Carlton Gardens.

Wednesday 16 November

- 0915 Talks with the Chief Secretary of the Treasury,
the Rt Hon Peter Rees, QC, MP, at the Hyde Park Hotel.
- 1030 Wreath laying, Tomb of the Unknown Warrior,
Westminster Abbey, followed by tour of Abbey.
- 1115-1210 Tete-a-tete talks with the Prime Minister, Rt Hon
Margaret Thatcher, MP, at 10 Downing Street.
- 1210 Plenary talks.
- 1300-1440 Lunch hosted by the Prime Minister at 10 Downing Street.
- 1445-1600 Talks with the Secretary of State for Foreign and
Commonwealth Affairs at FCO.
- 1915 for 1945 Theatre party hosted by Mr Rifkind followed by supper
at Admiralty House.

Thursday 17 November

- 0900-1010 Meeting with CBI.
- 1025 Meeting with the Rt Hon Neil Kinnock, MP, Leader of
the Opposition, at Palace of Westminster.
- 1105 Meeting with British Yugoslav Parliamentary Group.
- 1245 for 1315 Lunch at Mansion House hosted by the Rt Hon the
Mayor of London.
- 1600-1700 Talks with the Secretary of State for Trade and
Industry, Rt Hon Norman Tebbit MP, at DTI
- Evening Private engagements.

/Friday 18 November



Friday 13 November

- 0915 Arrive RAF Turnhouse, Edinburgh. Met by the Secretary of State for Scotland, Rt Hon George Younger MP.
- 0940 Visit Racal Security Ltd
- 1120 Informal talks at Bute House with the Secretary of State for Scotland.
- 1230 for 1300 Lunch hosted by the Secretary of State for Scotland at Edinburgh Castle.
- 1440 Sightseeing in Edinburgh.
- 1615 Tea hosted by the Secretary of State for Scotland, at RAF Turnhouse.
- 1700 Depart by special flight for Zagreb

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