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SUBJECT cc Mark



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*From the Private Secretary*

21 April 1989

*Jan Richard,*PRIME MINISTER'S MEETING WITH THE FOREIGN MINISTER  
OF YUGOSLAVIA

The Prime Minister had a brief meeting this morning with the Yugoslav Foreign Minister. Mr. Loncar was accompanied by the Yugoslav Ambassador. HM Ambassador Belgrade was also present. The Yugoslav Ambassador deserves a medal - from his government not ours - for his successful campaign to get Mr. Loncar in. Despite tank traps laid at every opportunity, he finally got to the Prime Minister over dinner at Windsor Castle and bounced her into agreeing to a meeting. When I still refused to put it in the diary, he collared her once again at the CSCE Information Forum.

The Prime Minister began by saying that Yugoslavia had problems, very grave problems. She was disappointed at the failure to get to grips with economic difficulties, but understood that this was anyway virtually impossible until the Federal Government was able to get the different national groups pulling together.

Mr. Loncar said that the Prime Minister's remarks to Mr. Djuranovic when they had met in 1988 had made a considerable impact in Yugoslavia. As she recognised, there were two sets of problems, economic and ethnic. He could assure her that the new Cabinet had been given the task of accelerating reform, and of being more energetic in introducing a market economy and a pluralistic political system, while maintaining socialism. Yugoslavia was at a crucial juncture. The government would need courage, clear concepts and support and understanding from outside, particularly from the European Community.

The Prime Minister said that she was glad to hear this. But what was going to be different? The last government had been full of good intentions but had failed to implement them. It was not an option to carry on in the same way that had got Yugoslavia into trouble in the past. The Federal government would have to get a firm grip both on the economy and on the ethnic difficulties. So what was new?

Mr. Loncar said the Prime Minister had asked the right question. There were several new factors. There was strong determination to move towards a market economy and Thatcherism. There was a clear intention to negotiate a multi-year programme with the IMF: there would be no difficulty about meeting their requirements. There was recognition of the need to attract foreign investment rather than just borrow money abroad. The ideological constraints on such an investment no longer existed. The Constitution was being changed to promote, indeed to favour, private ownership and foreign ownership. Steps were being taken to create a real single market in Yugoslavia. And moves were afoot towards political pluralism, of a horizontal not a vertical kind.

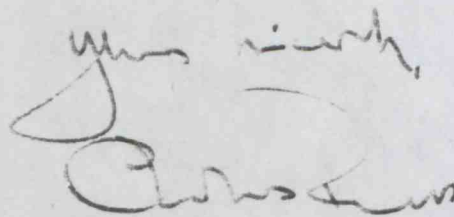
The Prime Minister said that this all sounded admirable but there would have to be a massive effort to explain it to the people. In her view the government had no option but to be bold. Mr. Loncar said that, up until now, the Federal Government had tried to move forward on the basis of consensus. Now it realised it had to give a lead.

Mr. Loncar complained at the lack of a dialogue with the United States. He hoped the Prime Minister would urge President Bush to pay more attention to Yugoslavia. The Prime Minister said she thought that he was well aware of Yugoslavia's importance.

Mr. Loncar spoke about Yugoslavia's assumption of the chairmanship of the Non Aligned Movement.

Mr. Loncar conveyed greetings from Mr. Markovic and renewed the invitation to the Prime Minister to visit Yugoslavia again. The Prime Minister said that she would prefer to wait and see what progress was made with reform before taking up the invitation.

I am copying this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence) and Neil Thornton (Department of Trade and Industry).



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