

CONFIDENTIAL

170423
DHIAN 9736

PS TO PRIME MINISTER
NO 18 DOWNING ST

CONFIDENTIAL
FM MOSCOW
TO IMMEDIATE FCO
TELNO 1338
OF 210528Z JUL
INFO PRIORITY WASHINGTON UKDEL OECD UKREP BRUSSELS EC POSTS

USSR : CALL ON ABALKIN

1. I HAD A MEETING ON 20 JULY WITH ABALKIN, THE DEPUTY PRIME MINISTER AND CHAIRMAN OF THE ECONOMIC REFORM COMMISSION. WE DISCUSSED THE SOVIET ECONOMIC REFORM PROGRAMME AND EAST/WEST ECONOMIC RELATIONS POST-DUBLIN AND HOUSTON. ABALKIN ALSO TALKED ABOUT THE DELORS VISIT (ON WHICH SEE MY MIFT).

ECONOMIC REFORM

2. ON THE ECONOMIC REFORM, ABALKIN ADDED LITTLE TO WHAT WE KNEW ALREADY, NAMELY THAT THE GOVERNMENT WOULD BE WORKING THROUGH THE SUMMER HOLIDAY ON A PACKAGE OF LAWS FOR PRESENTATION TO THE SUPREME SOVIET AT THE BEGINNING OF SEPTEMBER. THESE WOULD BE DESIGNED TO CREATE PROPER ECONOMIC INSTITUTIONS, INCLUDING GENUINE SYSTEMS FOR BANKING, TAXATION AND MONETARY POLICY. THE PROPOSALS WERE BEING DISCUSSED BY THE PRESIDENTIAL COUNCIL TODAY, AND WOULD BE PUT TO THE COUNCIL OF MINISTERS NEXT WEEK. THEY WOULD PROVIDE FOR PRIVATISATION OF LARGE ENTERPRISES, AND THE BREAKING UP OF EXISTING INDUSTRIAL MINISTRIES, WITHOUT CREATING NEW MONOPOLIES. THE NEW MEASURES WOULD COME INTO FORCE ON 1 JANUARY, AND WOULD BE ACCOMPANIED BY NEW PRICES AND TAX RATES.

3. ABALKIN'S PARTICULAR PREOCCUPATION AT THE MOMENT WAS THE DANGER POSED BY 'REPUBLICAN SEPARATISM'. THE REPUBLICS WERE REVISING PRICES INDEPENDENTLY OF THE CENTRE, AND THEREBY INCREASING THE OPPORTUNITIES FOR THE BLACK MARKET. THEY WERE TRYING TO SECURE CONTROL OF THEIR OWN HARD CURRENCY EARNINGS AS WELL. BUT AS LONG AS SOVIET INDUSTRY COULD NOT COMPETE IN WESTERN MARKETS, AND AS LONG AS THE SOVIET UNION HAD TO SPEND LARGE SUMS OF CURRENCY TO IMPORT GRAIN, A MEASURE OF CENTRAL CONTROL OVER HARD CURRENCY WOULD REMAIN UNAVOIDABLE. THESE REMARKS (APART FROM THE INTRINSIC JUSTIFICATION) WERE OBVIOUSLY DIRECTED AT YELTSIN, AMONGST OTHERS.

4. I ASKED WHETHER THE PUBLIC WOULD BE MORE INCLINED THAN IN THE SPRING TO ACCEPT THE PROPOSED REFORMS. ABALKIN SAID A CONSIDERABLE EFFORT WAS NOW BEING PUT INTO PERSUADING SENIOR AND MEDIUM LEVEL OFFICIALS IN THE PROVINCES AS WELL AS MOSCOW, AND REPRESENTATIVES OF

THE WORKERS, THAT REFORM WAS INESCAPABLE. SUCH EFFORTS HAD SWUNG THE VOTE IN THE CONGRESS. HE THOUGHT THAT ORDINARY PEOPLE WERE NOW RECONCILED TO THE PROSPECT OF PRICE RISES, AND WOULD INDEED LIKE TO GET THEM OVER QUICKLY. EVEN THE ASPIRATIONS OF RADICAL POLITICIANS - SUCH AS THE NEW MAYORS OF MOSCOW AND LENINGRAD - TO ECONOMIC AUTONOMY HAD SOME USE : NOW THEY WERE THEMSELVES HAVING TO TAKE RESPONSIBILITY FOR THE PRACTICAL PROBLEMS OF RUNNING GREAT CITIES AND WHOLE REPUBLICS, THEIR PRONOUNCEMENTS WERE BECOMING NOTICEABLY MORE SOBER.

ECONOMIC RELATIONS WITH THE WEST

5. ABALKIN SAID THAT THE SOVIET GOVERNMENT WELCOMED THE OUTCOME OF DUBLIN AND HOUSTON: WESTERN CONTRIBUTIONS IN THE FORM OF MANAGEMENT EXPERTISE AND TRAINING, SUPPORT FOR SMALL ENTERPRISES, AND CAPITAL INVESTMENT FOR LONG-TERM PROJECTS, WOULD ALL BE VALUABLE. IT WOULD ALSO BE POLITICALLY CONVENIENT IF WESTERN FINANCE WERE MADE AVAILABLE ON A SHORTER TERM BASIS FOR THE IMPORTATION OF CONSUMER GOODS.

6. HOWEVER, ABALKIN EMPHASISED THAT THE WEST SHOULD NOT TREAT THE SOVIET UNION AS IF IT WAS MERELY ANOTHER EAST EUROPEAN COUNTRY. ITS SIZE, AND ITS POLITICAL, ECONOMIC AND STRATEGIC IMPORTANCE, MADE THE SOVIET UNION AN ENTIRELY DIFFERENT PROPOSITION. ONE COULD GIVE 'AID' TO HUNGARY. BUT THE USSR WAS AND WOULD REMAIN A GREAT POWER. TALK OF 'AID' WOULD OFFEND PUBLIC OPINION AND NATIONAL PRIDE, AND IT WOULD BE COUNTER-PRODUCTIVE. NOR SHOULD THERE BE ANY TALK OF CONDITIONALITY, WHETHER POLITICAL OR EVEN ECONOMIC. THIS WAS UNACCEPTABLE. SUGGESTIONS THAT WITHOUT CONDITIONALITY WESTERN ASSISTANCE WOULD SIMPLY REINFORCE THE OLD STRUCTURE AND ASSIST REACTIONARIES WERE BASED ON IGNORANCE OF THE REAL SITUATION (ABALKIN - WHO SHOWED UNCHARACTERISTIC EMOTION AT THIS STAGE - DESCRIBED SUCH SUGGESTIONS AS 'UNPROFESSIONAL'. THIS IS STRONG LANGUAGE IN THE VOCABULARY OF THE GORBACHEV ENTOURAGE). THE SOVIET GOVERNMENT HAD IRREVOCABLY DECIDED THAT A TRANSFER TO MARKET PRINCIPLES WAS THE ONLY WAY OUT OF THEIR DIFFICULTIES. GORBACHEV DID NOT NEED THE WEST TO TELL HIM THIS. HE HAD SHOWN HIS COMMITMENT TO THE MARKET AT THE PARTY CONGRESS WHERE - DESPITE THE NOISY OPPOSITION - HE HAD MADE NO CONCESSIONS. HE WOULD PRESS AHEAD WITH HIS REFORMS WHATEVER HAPPENED OVER WESTERN SUPPORT.

7. ABALKIN EMPHASISED THAT NONE OF THIS MEANT THAT THE SOVIET UNION WAS NOT STRONGLY INTERESTED IN ECONOMIC COOPERATION WITH THE WEST AS BETWEEN EQUALS. PRACTICAL ECONOMIC COOPERATION, ON A SOUND COMMERCIAL AND ECONOMIC BASIS, WOULD EXERT ITS OWN DISCIPLINE ON THE PROCESS OF ECONOMIC REFORM. HE AND HIS MINISTERIAL COLLEAGUES HAD MET FOR THREE HOURS WITH DELORS ON 19 JULY. THEY HAD AGREED TO SET

UP A JOINT WORKING GROUP TO HELP PREPARE AN ASSESSMENT OF THE SOVIET ECONOMY. THEY WOULD PROVIDE THE GROUP WITH ALL THE INFORMATION IT NEEDED, EG ON THE EXTENT OF THE SOVIET DEBT. THEY WERE ALSO PROVIDING IT WITH COPIES OF PLANNED NEW LEGISLATION. ABALKIN SAID THAT HE HAD INCIDENTALLY BEEN VERY INTERESTED BY DELORS' ARGUMENT THAT THE RUSSIANS SHOULD NOT RUSH AHEAD WITH DISMANTLING CMEA. DELORS HAD SAID THAT MODERNISATION OF THE EASTERN EUROPEAN ECONOMICS WOULD TAKE TIME. IN THIS TRANSITIONAL PERIOD THEY WOULD CONTINUE TO NEED ONE ANOTHER AS MARKETS FOR THEIR (UNCOMPETITIVE) GOODS.

8. I AM REPORTING SEPARATELY ON WHAT DELORS TOLD THE COMMUNITY AMBASSADORS ABOUT HIS VISIT. ABALKIN OBVIOUSLY SAW THE PROSPECT OF A DEVELOPING RELATIONSHIP WITH THE COMMUNITY AS POTENTIALLY VALUABLE. BY CONTRAST HE WAS RATHER SOUR ABOUT THE IMF

BRAITHWAITE

YYYY

DISTRIBUTION

170

MAIN

156

SOVIET INTERNAL/SOVIET ECONOMY
LIMITED
SOVIET D
KIEV UNIT
COMED
CSCE UNIT
SED
MED
CONSULAR D
EED
JAU/EED
ECONOMIC ADVISERS
ERD
INFO D
NEWS D
PPD
PUSD
PLANNERS

RAD
WED
ECD(E)
ILA
PS
PS/MR WALDEGRAVE
PS/PUS
MR P J WESTON
MR TOMKYS
MR BAYNE
MR TAIT
MR GOULDEN
MR MILES
MISS SPENCER
MR GREENSTOCK
MR LING
MR MOSS
MR KERR

ADDITIONAL 14.

SOVIET INTERNAL
SOVIET ECONOMY

PAGE 3
CONFIDENTIAL

NNNN