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DESKBY 010900Z  
FM WASHINGTON 010431Z JUN 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1735 OF 1 JUNE

ECONOMIC SUMMIT: AMERICAN EXPECTATIONS

1. WHAT THE PRESIDENT WANTS ABOVE ALL FROM HIS VISIT TO LONDON IS AN OUTCOME THAT WILL PLAY WELL IN HIS ELECTION CAMPAIGN. HIS STAFF TELL US THAT HE WILL WANT TO LOOK "PRESIDENTIAL". ON ECONOMIC ISSUES THIS MEANS THAT THEY HOPE FOR GENERAL AGREEMENT THAT THE DOMESTIC POLICY OBJECTIVES WHICH THE PRESIDENT (AND INDEED MOST OF HIS SUMMIT PARTNERS) HAS BEEN PURSUING HAVE PAID OFF IN TERMS OF ECONOMIC RECOVERY. THE WHITE HOUSE IS UNEASILY AWARE THAT THE PRESIDENT MAY BE CROSS-EXAMINED ABOUT THE US DEFICITS AND INTEREST RATES, AND INTERNATIONAL DEBT, AND FEARS THAT THESE ARE INCREASINGLY ATTRACTING UNFAVOURABLE ATTENTION IN THE DOMESTIC POLITICAL PROCESS HERE. THE PRESIDENT WILL BE WELL BRIEFED TO DEAL WITH THE ARGUMENTS AT THE SUMMIT; BUT THE WHITE HOUSE DEFINITELY HOPE THAT HIS COLLEAGUES WILL BE CONTENT TO HANDLE THE ISSUES IN AS UNCONTENTIOUS AND LOW-KEY A MANNER AS POSSIBLE. THEY ARE APPRECIATIVE OF THE EFFORTS THE PRESIDENT'S BRITISH HOSTS HAVE BEEN MAKING TO ACHIEVE THIS.

2. ALTHOUGH PRELIMINARY PRESS COVERAGE OF THE SUMMIT HAS BEEN GROWING OVER THE LAST WEEK, IT HAS BEEN COMPARATIVELY LOW-KEY AND ANALYTICAL. TREASURY SECRETARY REGAN'S REMARKS THAT HE EXPECTS INTEREST RATES, THE DEFICITS, AND THE DEBT ISSUE TO FIGURE LARGELY HAVE BEEN WIDELY REPORTED. THE NEW YORK TIMES ANALYSED ON 29 MAY THE PERFORMANCE OF THE SEVEN SUMMIT COUNTRIES IN MEETING THE COMMITMENTS THEY MADE AT WILLIAMSBURG IN COMPARATIVELY OPTIMISTIC TERMS. BUT SO FAR THERE HAS BEEN NO PARTICULAR ATTEMPT EITHER TO PORTRAY THE SUMMIT AS A CRISIS MEETING, FOR WHICH THERE ARE HIGH EXPECTATIONS, OR ALTERNATIVELY TO DISMISS IT. THE GENERAL TENOR IS PERHAPS SUMMED UP IN THE WASHINGTON POST ON 31 MAY WHICH SAID THAT WHILE THERE WERE NO VERY HIGH HOPES FOR LARGE ACHIEVEMENTS IN LONDON, THE EXERCISE WAS WORTHWHILE SINCE THIS WAS ONE OF THE FEW OCCASIONS ON WHICH THE LEADERS OF THE MAJOR INDUSTRIAL POWERS WERE COMPELLED TO CONFER ON THE STATE OF THE WORLD ECONOMY. THE TONE COULD CHANGE AS THE ELECORAL IMPLICATIONS BECOME CLEARER.

POLITICAL ISSUES

3. THE AMERICANS NOTE THAT A GOOD DEAL OF TIME WILL BE TAKEN UP AT THE SUMMIT WITH INTERNATIONAL POLITICAL ISSUES. THEY WELCOME THIS AS PART OF THE BUSINESS OF BINDING THE JAPANESE INTO THE WESTERN POLITICAL PROCESS. THEY THINK THAT IT WOULD HELP THE JAPANESE, AND ALSO FIT IN WITH THE GENERAL THRUST OF THE PROPOSED POLITICAL DECLARATION, IF LANGUAGE COULD BE ADDED ABOUT THE INDIVISIBILITY OF WESTERN SECURITY. ON PARTICULAR ISSUES, THE AMERICANS HAVE FEW REQUIREMENTS: THEY ARE CONTENT TO LET THE AGENDA IMPOSE ITSELF. NEVERTHELESS, THEY HANKER AFTER SOME PUBLIC LANGUAGE ON EAST/WEST

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RELATIONS.



RELATIONS, ON ARMS CONTROL AND ON THE GULF, AND ARE STILL THINKING OF PROPOSING WORDS TO TACK ON TO THE POLITICAL DECLARATION (ALTHOUGH THEY SEEM OPEN TO THE ARGUMENT THAT IT MIGHT BE NEATER TO DEAL WITH THESE CURRENT SUBJECTS ELSEWHERE). IN PARTICULAR, THE STATE DEPARTMENT (MORRIS) CONSIDER THAT PUBLIC OPINION WILL FIND IT HARD TO UNDERSTAND IF THE SUMMIT LEADERS DO NOT SAY SOMETHING CLEAR ABOUT THE GULF, INCLUDING PERHAPS SOMETHING ABOUT JOINT EFFORTS TO DEAL WITH THE IMPLICATIONS FOR THE WEST'S ENERGY SUPPLIES. THE AMERICANS WILL BE LOOKING FOR EVIDENCE FROM THEIR PARTNERS THAT THEY ARE SERIOUSLY CONSIDERING EFFECTIVE CRISIS MEASURES OF THEIR OWN. THERE WOULD BE MUCH CRITICISM IN CONGRESS AND ELSEWHERE IF THE AMERICAN PUBLIC GOT THE IDEA THAT AMERICA'S PARTNERS WERE CONTENT SIMPLY TO RELY ON THE AMERICANS TO DRAW DOWN THEIR STRATEGIC PETROLEUM RESERVE IN AN EMERGENCY.

4. ON TERRORISM, THE AMERICANS ARE LOOKING FORWARD TO A GOOD DISCUSSION, FOLLOWING BY A BRITISH BRIEFING, BUT THEY DO NOT EXPECT A JOINT STATEMENT.

#### ECONOMIC ISSUES

5. THE ADMINISTRATION HAVE UNTIL RECENTLY BEEN FAIRLY COMPLACENT, ESPECIALLY IN PUBLIC, ABOUT THE PROSPECTS FOR BOTH THE COUNTINUATION OF THE WORLD ECONOMIC RECOVERY AND THE RESOLUTION OF THE INTERNATIONAL DEBT SITUATION. THE GROWTH OF THE DOMESTIC AMERICAN ECONOMY HAS BEEN HIGHER THAN EXPECTED, AND UNEMPLOYMENT AND INFLATION HAVE BEEN REDUCED SUBSTANTIALLY. THEY ALSO SEE THAT ECONOMIC ACTIVITY IN OTHER OECD ECONOMIES HAS BEEN PICKING UP. DEBTOR COUNTRIES HAVE BEEN REGARDED AS SUCCESSFULLY TAKING THE NECESSARY STEPS TO ADJUST THEIR ECONOMIES WITH THE ASSISTANCE OF EXISTING INTERNATIONAL SUPPORT MECHANISMS. BUT THREE INTER-RELATED RECENT DEVELOPMENTS HAVE ALTERED THE POSITION: THE RISE IN US INTEREST RATES, THE DIFFICULTIES OF THE CONTINENTAL BANK OF ILLINOIS, AND THE SIGNS OF A MORE CONCERTED APPROACH BY DEBTOR COUNTRIES. THE ADMINISTRATION ARE NOW SHOWING SIGNS OF NERVOUSNESS, ABOUT THE SUBSTANCE AS WELL AS THE ELECTORAL IMPLICATIONS. BUT IN LONDON THE PRESIDENT IS LIKELY TO CONTINUE WITH HIS LINES THAT FURTHER ACTION ON THE BUDGET WILL HAVE TO WAIT UNTIL NEXT YEAR: THAT THE US AUTHORITIES CAN COPE WITH THE TROUBLES IN THE BANKING SYSTEM; AND THAT ON INTERNATIONAL DEBT THE RIGHT THING IS TO FEND OFF RADICAL OR COSTLY SOLUTIONS, ISOLATE POTENTIAL MAVERICKS (NOTABLY ARGENTINA), WHILE CONSOLIDATING PROGRESS IN THOSE COUNTRIES SUCH AS BRAZIL AND MEXICO WHICH ARE IMPLEMENTING ADJUSTMENT PROGRAMMES.

6. MEANWHILE THE STATE DEPARTMENT ARE HAPPY WITH THE LANGUAGE OF THE DRAFT ECONOMIC DECLARATION WHICH THEY THINK DEALS NEATLY WITH THE DIFFICULT MACRO-ECONOMIC ISSUES. HOWEVER THE OTHER AGENCIES HAVE NOT YET COMMENTED ON THE TEXT: SO THERE MAY BE SOME NIT-PICKING WHEN THE AMERICAN DELEGATION AS A WHOLE CONSIDERS THE TEXT IN LONDON. THE WHITE HOUSE IN PARTICULAR ARE SAID TO BE ANXIOUS TO AVOID TIGHT LANGUAGE ON PROTECTIONISM, SINCE THEY FOUND THAT THE WILLIAMSBURG LANGUAGE WAS EMBARRASSING WHEN THE PRESIDENT SUBSEQUENTLY ACTED AGAINST STAINLESS STEEL IMPORTS: THEY WANT HIM TO HAVE A FREE HAND IF NECESSARY DURING THE CAMPAIGN PERIOD. HOWEVER, THE AMERICANS ARE SATISFIED WITH THE LANGUAGE ABOUT A NEW MULTILATERAL ROUND OF TRADE TALKS, AND PARTICULARLY TO THE REFERENCE TO A DECISION IN 1985. THEY DO NOT WANT THIS TO BE WATERED DOWN.

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Science



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## SCIENCE AND TECHNOLOGY

7. THE AMERICANS ARE BROADLY SATISFIED WITH THE LANGUAGE IN THE ECONOMIC DECLARATION ABOUT SCIENTIFIC COLLABORATION. THEIR TECHNICAL EXPERTS ARE HOWEVER WORRIED THAT DISCUSSION ON ENVIRONMENTAL ISSUES WILL ENCOURAGE THE GERMANS AND THE CANADIANS TO COMPLAIN ABOUT ACID RAIN, AND THEY WANT TO AVOID THIS. THE STATE DEPARTMENT BELIEVE THAT THE PROCEDURE WE HAVE PROPOSED WILL AVOID THIS DANGER, AND THAT THE AMERICANS WILL HAVE LITTLE DIFFICULTY IN PARTICIPATING IN A PROGRAMME PROVIDED IT IS GIVEN NO PROMINENCE. BUT SOME NERVOUSNESS REMAINS.

8. ON THE MANNED SPACE STATION THE AMERICANS HOPE THAT THEIR PARTNERS WILL MAKE SOME COMMITMENT TO PARTICIPATE AND CONTINUE TO POINT OUT THAT THE LATER WE JOIN, THE LESS LIKELY WE ARE TO INFLUENCE THE PROGRAMME. THOUGH THEY CLAIM THAT THEY ARE IN NO SENSE ISSUING AN ULTIMATUM, THEY MAY WANT TO STRENGTHEN THE LANGUAGE IN THE DRAFT ECONOMIC DECLARATION ACCORDINGLY.

9. ERD PLEASE ARRANGE FURTHER DISTRIBUTION TO OTHER SUMMIT POSTS AS APPROPRIATE.

ADVANCE COPIES TO CABINET OFFICE PS/SIR ROBERT ARMSTRONG:  
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