

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Clark, William P.: Files
Folder Title: Trip to Europe, President's: London
Economic Summit 06/07/1984-06/09/1984
(Binder) (1)
Box: 8

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library inventories visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name CLARK, WILLIAM: FILES

Withdrawer

LOJ 1/22/2005

File Folder TRIP TO EUROPE, PRESIDENT'S: LONDON ECONOMIC
SUMMIT 06/07/1984-06/09/1984 (BINDER) (1)

FOIA

2000-147

Box Number 8

CLARK

140

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
3153	TABLE	TABLE OF CONTENTS FOR THE TRIP OF PRESIDENT REAGAN TO THE LONDON ECONOMIC SUMMIT WORKING BOOK <i>R 6/23/2006</i>	2	ND	B1
3154	MEMO	ROBERT MCFARLANE TO THE PRESIDENT, RE LONDON ECONOMIC SUMMIT <i>R 6/23/2006</i>	4	5/18/1984	B1
3155	MEMO	SHULTZ AND REGAN TO THE PRESIDENT, RE LONDON SUMMIT: SCOPE PAPER <i>R 11/6/2007 F2000-147</i>	7	5/11/1984	B1
3156	PAPER	KEY SUMMIT ECONOMIC THEMES <i>R 6/23/2006</i>	8	ND	B1
3157	PAPER	LONDON SUMMIT... <i>R 6/23/2006</i>	4	ND	B1
3158	PAPER	<i>R 6/23/2006</i>	1	ND	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name CLARK, WILLIAM: FILES

Withdrawer

LOJ 1/22/2005

File Folder TRIP TO EUROPE, PRESIDENT'S: LONDON ECONOMIC
SUMMIT 06/07/1984-06/09/1984 (BINDER) (1)

FOIA

2000-147

Box Number 8

CLARK

140

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
3159	PAPER	...COMMUNITY R 6/23/2006	1	ND	B1
3160	PAPER	R 6/23/2006	1	ND	B1
3161	PAPER	R 6/23/2006	1	ND	B1
3162	PAPER	R 6/23/2006	1	ND	B1
3163	PAPERCOUNTRY PAPER R 6/23/2006	1	ND	B1
3164	PAPER	R 6/23/2006	1	ND	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

~~CLASSIFIED~~

THE WHITE HOUSE



THE PRESIDENT'S TRIP TO EUROPE: LONDON ECONOMIC SUMMIT

June 7 - 9, 1984

~~CLASSIFIED~~ UNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURE(S) 1/22/05
FBI

William P. Clark

~~SECRET~~

THE TRIP OF PRESIDENT REAGAN
TO THE LONDON ECONOMIC SUMMIT

WORKING BOOK

June 7 - 9, 1984

TABLE OF CONTENTS

I. OVERVIEW PAPERS

- A. London Economic Summit, June 7-9
- B. London Summit: Scope Paper

II. BACKGROUND PAPERS

A. Key Summit Economic Themes

Recovery and Economic Outlook
Debt, Finance, Monetary
Trade
Manned Space Station
Environment, Technology
East-West Economic Relations

B. London Summit: Political Themes

East-West Relations
Arms Control
Middle East/Iran-Iraq
Terrorism
Central America

C. Country Papers

- 1. Canada
- 2. The European Community
- 3. Federal Republic of Germany
- 4. France
- 5. Italy
- 6. Japan
- 7. United Kingdom

D. Individual Issue Papers

- 1. U.S. Budget Outlook
- 2. Monetary System Reform
- 3. Multilateral Development Banks and IDA
- 4. Energy Market and Oil Prices
- 5. North-South Relations
- 6. Versailles Technology Cooperation Program
- 7. Australian Participation in Summits

DECLASSIFIED

NLS FOO-147#3153

DECL: OADR

~~SECRET~~

~~SECRET~~

- 2 -

- E. Selected Economic Statistics
- F. Communiqués of Previous Summits
 - 1. Williamsburg
 - 2. Versailles
 - 3. Ottawa
- III. SUMMIT THEMATIC PAPER (current version)
- IV. Annotated Schedule
- V. Talking Points by Event
 - A. Thursday, June 7
 - 1. Dinner
 - B. Friday, June 8
 - 1. Morning Heads-Only Meeting
 - 2. Lunch
 - 3. Afternoon Plenary
 - 4. Dinner
 - C. Saturday, June 9
 - 1. Morning Plenary

~~SECRET~~

I. OVERVIEW PAPERS

A. LONDON ECONOMIC SUMMIT

THE WHITE HOUSE

NLS FOO-147#3154

WASHINGTON

BY LDT NARA, DATE 6/23/06

May 18, 1984

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT C. MCFARLANE *RM*

SUBJECT: London Economic Summit, June 7-9, 1984

Issue

You will meet at London with six out of the seven leaders of the Western World who assembled last year at Williamsburg (Craxi of Italy is the only "new hand"). The overall setting for this year's Summit will be a positive one, where your leadership is acknowledged and highlighted. The fundamental, long-term programs that you have put into place since Ottawa have led the United States and its Summit partners to economic recovery and strengthened security cooperation. The London Summit thus provides an opportunity to build upon the consensus on economic and security issues reached at Williamsburg and to further your twin goals of peace and prosperity through increased Allied support and cooperation in achieving both.

Facts

Prime Minister Thatcher will be in the chair. The British have followed the Williamsburg format, stressing the need for informality and an unstructured atmosphere conducive to a free exchange of views. The key economic topics that will be discussed at the Summit are:

- o World Recovery and Outlook;
- o International Finance, Debt and Monetary Issues;
- o Trade;
- o Manned Space Station;
- o Environment and Technology; and
- o East-West Economic Relations.

You will also be discussing (over meals) political issues. Summit Political Directors will meet on May 18, in Europe, to work out an acceptable agenda. Our aim is for the political discussions to focus on:

~~CONFIDENTIAL~~

Declassify on: OADR

~~CONFIDENTIAL~~

PRESERVATION COPY

- o the need for closer cooperation in combating state-supported terrorism--in particular, the problems posed by Libya;
- o the importance of the North American-Europe-Japan relationship to continued prospects for peace and freedom;
- o the need for broad cooperation in reducing our collective vulnerability to oil supply disruptions that may arise out of the Iran-Iraq War; and
- o the need to support a realistic approach to East-West relations, based on strength and continuing dialogue.

Discussion

The overall economic theme of the London Summit is a positive one. All participants agree that optimism about world economic recovery (fueled by the United States) is the key economic message needed out of London.

Under this "umbrella," our goal is to reach a consensus with our Summit partners on how to sustain non-inflationary recovery and spread its benefits to the rest of the world. It is worth highlighting that economic recovery--our common prosperity--is more than material gain. It is the reflection of our most important shared values of individual freedom, personal creativity, moral purpose and human dignity, and it is the guarantee of the Free World's common strength in defense of these basic values.

Sustaining recovery requires continued application of the policies which you first advocated at the Ottawa Summit, and on which there is now a broad consensus among the Summit countries (despite continuing concern about U.S. budget deficits and interest rates). Spreading recovery implies agreement to refine or initiate policies concerning the interrelated problems of debt, development and trade that promotes stability and greater openness in the world economy.

Endorsement of the need for a new round of trade negotiations is one critical objective in our strategy for spreading recovery. The second is to create confidence that our debt strategy will continue to work effectively if all involved--creditors, debtors and institutions--meet their obligations under it in both the short and longer terms. While there is a measure of agreement among us on the key elements of the strategy, it is in this context that you can expect to receive the most aggressive criticism by our Summit partners, especially the Europeans, over "high" U.S. interest rates and, in their view, inadequate funding for official development aid (e.g., IDA). They will argue that the increasing burden of interest charges may be more than some--perhaps many--of the debtor developing countries are able to meet. It is likely that France and others will

stress the need to do more to ease the payments problems of debtor countries by increasing resources available to the World Bank, IDA and other institutions.

The London Summit also provides the opportunity to forge new partnerships and bolster cooperation in key areas with our Allies. Even if some are not yet ready to commit to a joint development now of the space station, we are hopeful that our Summit partners will acknowledge the positive benefit to be achieved by international participation in your initiative. It would be a highly visible symbol of unified leadership in pursuit of your twin goals of peace and prosperity.

Prime Minister Thatcher, we understand, will raise international terrorism during discussion of political issues. Both the British and the Federal Republic of Germany share our concerns about the growth of state-sponsored terrorism. Our aim is to improve--without fanfare--allied cooperation in deterring terrorist attacks. We should stress the need for better intelligence, improved measures to predict/prevent attacks, and ways to detect and disarm terrorist weapons and explosives.

Finally, in discussion of the threats posed by the Iran-Iraq War, you may wish to call attention to the U.S.-led initiative within the International Energy Agency to share equitably the burden of an oil shortfall which could result from a widening of that conflict.

Preparatory Materials for London Summit

Under the cover of this memorandum are the materials that have been drafted to prepare you for your London discussions. The bulk of these materials are for your use prior to London. The key documents are:

- o Secretary Shultz' and Secretary Regan's Scope Paper. This paper gives recommendations for the objectives and strategy to use at London.
- o Summit Economic and Political Themes Papers. These two papers give detailed background on the substantive economic and political subjects likely to arise at the Summit. They are keyed to the scope paper by issue.
- o Country Papers. There are seven, one-page papers which provide a "snapshot" of the economic and political situations in each Summit country and the European Community as a whole.
- o Selected Economic Statistics. Color graphics for Summit countries showing government deficits as a share of GNP, government expenditures as a percentage of GNP, average short-term nominal interest rates, trade and current account balances, exchange rate changes, real GNP growth rates, unemployment rates, consumer prices increases, and U.S. recovery effects on Summit countries' growth.

- o British Thematic Paper. This paper was written by the Sherpas during the preparatory process. It is the departure point for Summit discussions and will form the basis for the declaration coming out of London. (The final version will not be available until May 23.)

- o Talking Points. This is the key section of your briefing materials for use in London. It lists by issue your objectives, areas to watch out for, and the substantive points we recommend you draw on in making your remarks.

Prepared by:
Douglas W. McMinn

B. LONDON SUMMIT: SCOPE PAPER

THE SECRETARY OF STATE
WASHINGTON

84 MAY 11 P6:10

May 11, 1984

MEMORANDUM FOR: THE PRESIDENT
FROM: George P. Shultz *GPS*
Donald T. Regan *DR*
SUBJECT: London Summit: Scope Paper

I. YOUR OBJECTIVES

You have three main objectives at the London Economic Summit:

- To send a message to the rest of the world that, under U.S. leadership, world economic recovery has taken hold;
- To strengthen the emerging consensus among Summit countries on policies which will assure that non-inflationary recovery endures and spreads to other countries; and
- To forge new partnerships and broaden the basis for future cooperation with our Summit partners in such areas as space, East-West relations and combating terrorism.

II. SETTING OF LONDON SUMMIT

Since the beginning of your Administration, you have consistently argued that the basis for a smoothly functioning international economy rests on policies to reduce inflation and expand the scope for individual initiative. Your policies have been directed toward reducing obstacles caused by government intervention in the marketplace. The thrust of your message has been that the proper role of the government must be to remove domestic economic rigidities (e.g., excessive taxes, government regulation and planning), to facilitate, rather than frustrate, adjustment to changing circumstances as the best way to create new jobs and durable prosperity.

DECLASSIFIED

NLS

F00-147#3155

BY

WDS, NARA, DATE 11/6/07

~~CONFIDENTIAL~~
DECL: ~~OADR~~

PRESERVATION COPY

Your message, strongly reinforced by the conspicuous success of your economic policies, is now broadly accepted by our Summit partners. The change of European attitudes since Ottawa (or even Williamsburg) has been striking. While reduction of market rigidities in Europe will be slow and painful, all now agree that it must begin. Thus, for the first time in the experience of your participation in these Summits, all will be starting from a basis of generally shared analysis and agreement on the facts (recovery has taken hold) and on the objectives of national economic policies (to sustain non-inflationary recovery and to remove obstacles to structural adjustment).

With that fundamental agreement, London offers the opportunity to look beyond current problems and lay the foundations for a forward-looking international economic strategy that will carry our countries and the world toward actions, to be implemented in your second Administration, that will consolidate recovery and advance our objectives of more open world markets. Likewise, in the political area, there now is a broad consensus among Summit leaders supportive of your approach to the crucial East-West issues. This, for us, is therefore a transition Summit, validating the policies we have implemented over the last three years and defining our broad international economic goals for the next term.

III. ECONOMIC AND POLITICAL ISSUES FOR LONDON

A. ECONOMIC

Economic Outlook and World Recovery

All Summit countries are agreed that the major theme of this Summit should be to stress our confidence that economic recovery has taken hold and is developing into a sustainable economic expansion. The task is to pursue policies that assure that recovery endures and spreads to the rest of the world. There is broad, but nuanced, agreement that those policies must embrace more openness of trade and capital markets, and that national economic policies (especially in Europe) should be designed to keep (or bring) inflation down.

The Europeans and Canadians in particular are likely to concentrate discussion on the need to promote structural adjustment. (In fact, the Canadians introduced a specific proposal on this into the Summit preparatory process.) This will play directly to your strong suit and give you the opportunity to:

- Underline the need to remove obstacles to change in our individual economies in order to provide opportunities for growth and new job creation;
- Stress our desire to cooperate with others in advancing our collective understanding of the potential of market-oriented adjustment; and
- Emphasize the need to manage better our international economic policies (trade, finance, monetary) in ways that reinforce domestic strategies to enhance flexibility and growth.

Concerns will be expressed about high U.S. budget deficits and the fear that they will produce higher interest rates that could choke off recovery and reignite inflation. We suggest that rather than dwelling on our differences over the effect of budget deficits on interest rates, you should stress our agreement on objectives (i.e., to reduce structural deficits by reducing government spending and bring interest rates down), while emphasizing that progress on the first depends on agreement with Congress, and on the second, on convincing markets that we (and others) are serious in our commitment to keep inflation under control.

Debt, Finance, Monetary

We expect discussion to center on the interrelated issues of debt and finance (with the usual reminder from the French on the need for monetary reform). Our objective in the discussions on debt is to confirm that our strategy for managing LDC debt problems on the flexible, case-by-case basis is working and requires no fundamental change.

The strategy has been criticized for lacking a medium-term dimension. This is not true (both adjustment and more open markets are essentially medium-term objectives). However, this Summit offers an opportunity to expand and clarify these aspects of the strategy by stressing four major elements:

- The need for continued adjustment efforts by debtor countries with the support of the IMF and increased lending by commercial banks;
- The need to expand trade between developed and developing countries to promote growth in both and to assure that heavy debtors will be able to earn foreign exchange sufficient to service their debts and validate increased commercial bank lending;

- The need for developing countries to stimulate increased foreign direct investment to earn foreign exchange to service their debts, without further increasing indebtedness, while enhancing growth potential (and the desirability of strengthened IBRD role in acting as a catalyst for such new investment); and

- The need for closer coordination between the IMF and IBRD in order to make the role of the Bank more consistent with that of the IMF in promoting adjustment in LDCs, and in strengthening the IBRD's contribution to longer-term development.

While these elements have received general support from our Summit partners, it is likely that France and others will want to put heavier emphasis than we on the need to increase resources available to the World Bank, IDA and other institutions; perhaps attacking us for our positions on IDA VII funding and the World Bank's Selective Capital Increase. We should emphasize that we are supporting appropriate levels of funding for these institutions, that these resources are limited, that the proposed increases are adequate if properly used and distributed among those in most need and willing to follow effective policies. An increase in official flows alone will not solve the long-range problem if we and the LDCs do not take the actions we have stressed to make the market work more effectively.

You can also expect that concerns will be raised in this connection about the adverse effects of high U.S. interest rates on debtor developing countries' ability to service their debts.

Unlike last year, we do not expect Mitterrand to press hard for agreement on the need for an international monetary conference. Progress has been made in following up the Williamsburg commitment to study ways of improving the international monetary system, and the French do not have any basis to criticize us or the other Summit countries on that front. However, Mitterrand will probably recall his interest in monetary reform and underline again his analysis of why it is necessary. As with last year, we expect him to be in the minority on this.

Trade

Prime Minister Nakasone has publicly called for a new round of trade-liberalizing negotiations. We assume he will take the lead on this at London, with you in support. We

expect most to be supportive of a Summit conclusion that a new round is needed and that governments should intensify consultations, in GATT and elsewhere, to permit a decision to launch a new round in 1985 (or "by mid-decade"). It is important to gain agreement at London that a new round is an essential stimulus to the future growth which our domestic strategies are designed to achieve.

You should be aware that all participants are concerned by what they perceive to be increased protectionist pressures in the United States in election-year 1984. They point to the Administration's actions last year on specialty steel (quotas on foreign imports) and textiles (a tightening-up on implementation of our current quota system). The extraterritorial aspects of our Export Administration Act proposals may also be in the forefront of our Summit partners' concerns, along with the question of unitary taxation.

Manned Space Station Program

Our overall goal for the London Summit is to build confidence in the current recovery and to lift the sights of Summit countries beyond the present and to prepare our societies to enter the 21st Century. Agreement to participate with us in development of the manned space station will be a concrete symbol of this goal, as well as a practical demonstration of the Summit countries' determination to prepare the technological base for the future. While our invitation is open to all, eventual participation by all is not crucial to success.

Although agreement to commit resources to the program by the time of the Summit is unlikely, a general agreement to study cooperation may be attainable. You should reiterate your invitation to participate but also confirm your intention to proceed with whichever partners wish to join us.

Environment

Germany and Canada will argue for a Summit commitment to introduce new technologies immediately to control sulfur dioxide emissions and acid rain. We have doubled our budget for research in this area, but are not prepared to take immediate and costly measures on the basis of as yet inadequate information. Japan will seek Summit endorsement for its initiatives on cooperation in "life sciences" and may urge convening a meeting of Summit-country Science Ministers to consider cooperation in research on projects too large for

single countries (both of which we can support, as long as the latter does not include the space station, which we wish to keep on a separate track). France will press for continued Summit attention to the technology cooperation projects launched at Versailles.

East-West Economic Relations

While there is little enthusiasm among our Summit partners for a review of East-West economic relations, none will oppose reference to the work underway in various fora and the need to continue our efforts to broaden the consensus which we began to build last year.

B. POLITICAL

Our objectives for the political talks at London can be summarized as follows:

West-West Relations

Bring others to think increasingly in terms of their convergent, global interests and need for increased consultations and coordinated actions; build confidence in European-American-Japanese "trilateralism".

East-West Relations

Strengthen support for realistic approach to East-West relations, including primacy of effective defense/deterrence and vital role of Allied firmness and solidarity.

Reinforce confidence in U.S. commitment to secure more balanced, constructive and stable relationship with Soviets and in ultimate success of our approach.

Arms Control

Broaden agreement on arms control, including new MBFR and chemical weapons initiatives and need for Soviets to resume negotiations on strategic and intermediate-range nuclear forces.

Secure support for placing arms control in proper perspective -- i.e., not an end in itself but a means to strengthen security -- and for sustaining defense efforts necessary to give Soviets incentive for significant, equitable and verifiable reductions.

~~CONFIDENTIAL~~

- 7 -

Middle East/Iran-Iraq

Stress our continued interest in promoting reconciliation both in Lebanon and as regards the broader Arab-Israeli problem.

Ensure continued efforts to share information on Iran-Iraq war and to prepare for effective response to any widening of the conflict.

Terrorism

Advance Allied thinking, particularly with regard to state-supported terrorism, including need for close consultations and, where appropriate, coordinated action.

Central America

Deepen understanding of our approach to stability and security in the region, focusing on our efforts to strengthen democracy and local economies, and concomitant necessity of military shield if these efforts are to bear fruit.

Push for more active Allied contribution to achieving shared objectives.

~~CONFIDENTIAL~~

II. BACKGROUND PAPERS

A. KEY SUMMIT ECONOMIC THEMES

~~CONFIDENTIAL~~

KEY SUMMIT ECONOMIC THEMES

1. World Recovery and Outlook

Non-inflationary recovery in the industrial world now seems fully established. Summit countries grew 2.4% last year, and the forecast is 4.5% in 1984. Expansion is spreading to other industrial countries this year. Less developed countries (LDC) -- though constrained -- will pickup as well. This recovery is occurring in a low inflation atmosphere with Summit country inflation at about 4.6% this year.

At the London Summit, we should note that a broad convergence of performance toward higher growth and lower inflation is emerging. This movement can be sustained so long as continuing efforts are made to: restrain government spending, allowing expansion of the private sector; reduce excessive monetary growth and volatility, promoting lower interest rates by increasing confidence that inflation will be contained; remove structural rigidities that are inhibiting employment growth in some Summit countries; and maintain the open trading system to foster economic growth, particularly in the developing world.

Other Summit participants broadly agree that non-inflationary recovery is spreading. Aside from the Japanese, they are very concerned about the poor employment prospects. Structural rigidities, particularly in labor markets, and a growing labor force are behind the high level of unemployment in Europe. Some believe the U.S. budget deficit will drive up interest rates, choking off recovery in both industrial and developing nations.

These concerns aside, there is a broad consensus on policies and objectives. The multilateral surveillance exercise, initiated at Versailles and strengthened at Williamsburg, is a useful forum for consultations on convergence.

We will also want to stress that our trade and current account balances have deteriorated because our strong recovery was ahead of most of our trading partners, combined with the sharp decline in U.S. trade competitiveness due to dollar strength. Last year's \$40 billion current account deficit is likely to be followed by an \$80 billion deficit this year. This current account change has made a major contribution to growth for other countries as their exports to the United

DECLASSIFIED

NLS FOO-147# 3156

~~CONFIDENTIAL~~

~~DECL: OADR~~

BY LDT, NARA, DATE 6/23/06

States rise. For the next year or two, however, financing and adjustment for a number of LDCs will remain difficult. But if all parties continue to fulfill their responsibilities under the debt strategy the problem will be manageable.

2. Finance, Debt, Monetary

Our objective is to confirm that the five-point debt strategy endorsed at Williamsburg (see Talking Points) has worked successfully to promote adjustment efforts in debtor countries and avoided serious disruption of the international trade, finance, and monetary systems. This strategy is appropriate for the medium-term as well as the short-term. We seek a renewed commitment to this strategy as well as ways to improve its implementation in the years ahead. There continued to be general support for the debt strategy among some countries (Germany, Japan). However, others (France, Canada and, to a lesser extent, the UK) feel that current arrangements have resulted in unacceptable economic burdens in the debtor countries which threaten their political stability and may cause some of them to repudiate their debts. These countries argue for a "new, medium-term" strategy which would include increased official financing.

As evidence of remaining problems which the present debt strategy has supposedly not addressed, these partners cite: (a) intolerable debt burdens for some developing countries, which reduce their growth prospects; (b) a cutback in financing available from commercial and multilateral development banks; and (c) a bunching of debt repayments a few years hence. Their solution is expanded resources and an increased role for the World Bank, a further allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF), and more generous debt relief.

We do not believe this assessment of the situation is correct. The majority of the debtor countries have undertaken adjustment measures which are already bearing fruit, reducing inflation and restoring the basis for growth. Developing country growth is expected to average 4.5% annually over the 1985-90 period. Commercial banks have continued to lend new funds as well as reschedule, particularly to those developing countries which have undertaken effective adjustment programs. IMF resources have been increased and will continue to play an important role, as will World Bank financing, and official bridge financing in some cases.

Within the general concerns about inadequate resources for IDA and the IBRD, and strains on the political or economic viability of certain countries, France, the EC and possibly others are likely to cite Africa as an especially difficult problem. We share the concern about Africa and have stressed the need to direct a large share of future IDA lending to that continent. We have also proposed the African "Economic Policy Initiative" and would welcome other donor cooperation with us to assure its success. However, we do not believe Africa's problems should be used to justify a significant departure from our basic debt/development strategy, as outlined below.

Increased financing cannot provide a lasting solution to the debt problems, nor should debtor countries count on increased official resource transfers from the developed countries in light of political and budgetary realities. The only realistic long-term solution is a combination of (a) adjustment measures in the developing countries, which should include liberalization of trade and investment flows; (b) continued financing from commercial banks, the IMF and, in limited amounts, other official sources; (c) measures by developed countries to ensure that developing countries are able to expand their exports to earn the foreign exchange needed to service debts and pay for essential imports. In this connection, the Summit countries should follow through on their commitment to stable recovery, open markets, and preparation of a new round of trade negotiations; (d) improved institutional coordination, especially between the IMF and IBRD to assure that lending for adjustment is consistent with sound economic policies as recommended by the IMF. Thus the current strategy is a medium-term strategy, and needs to be reinforced, not revised or replaced.

On monetary reform, we believe that further enhancement of the multilateral surveillance process is the primary topic for finance ministers to consider in their review of the functioning of the international monetary system which was initiated at Williamsburg last year and is currently in progress in the Group of Ten (G-10) industrial countries. Summit Finance Ministers will provide a status report on the G-10 studies at London.

3. Trade

The open trading system has been a major engine for economic growth and higher real incomes and wages in the post-war period. Faced with the recent worldwide economic downturn and slow recovery in many countries, calls for

protectionism are louder than in many years. This has further eroded the international trading system and its rules. The challenge for Summit leaders is to consolidate improvements towards worldwide economic recovery, reconfirm our commitment to resist protectionism, promote early progress in liberalizing trade and improving the trade system, and agree on the need for new multilateral trade negotiations to achieve comprehensive liberalization.

During the past year some progress was made towards further trade liberalization. The main activity was identifying concrete steps to give meaning to the commitments made at the General Agreement on Tariffs and Trade (GATT) and Organization for Economic Cooperation and Development (OECD) Ministerials and at Williamsburg to halt protectionism and dismantle trade barriers. Summit as well as other OECD countries have agreed to accelerate tariff reductions agreed to during the Tokyo Round, provided administrative or legislative approval is granted. They also have agreed to reduce barriers to imports from the least developed countries and to take advantage of opportunities for reducing trade barriers. At the OECD, we have also agreed that the next phase of follow-up should establish the basis for a substantive effort to dismantle trade barriers next year. We have also committed ourselves to complete work in the GATT on a new import safeguards code and improved discipline in agricultural export subsidies.

At the same time, the major trading countries continued or increased certain restrictive measures. Specific targets for action were: steel, autos, textiles and apparel, miscellaneous industrial products, and agriculture. (Many of these actions affected products from developing countries, thereby exacerbating their trade/debt situation.) Our Summit partners are concerned about protectionism in the U.S. in an election year. They have noted that a number of U.S. industries (steel, footwear, copper, tuna) have filed for import relief with decisions due just prior to the election. Congressional pressure for domestic content legislation and a number of trade restrictive bills has not abated. The EC is considering changes in its Common Agricultural Policy, which may harm U.S. agricultural exporters. Japan continues to restrict access for foreign products to its market.

At Williamsburg, we pointed to a new multilateral trade negotiation as a way to consolidate gains from the economic recovery by further liberalizing the world's trading system. A new multilateral negotiation would also play an important role

in reversing recent protectionist tendencies and in bringing developing countries more fully into the multilateral trading system. Intensive consultations with our Summit partners during the past year have produced a consensus on the need for a new round. Our objective at London is to confirm this consensus and direct our governments to broaden consultations with all trading partners so as to permit a decision on launching a new round to be taken in 1985 (or "by mid-decade", if less precision is inevitable).

4. Manned Space Station

In the State of the Union message, you committed the U.S. to develop a permanently manned Space Station within a decade in order to satisfy U.S. civil and commercial requirements for a space operations facility. At the same time, you extended an invitation to our friends and allies that they join us in this venture. This highly visible program will be the focal point for free world space operations well into the twenty-first century. In addition to enhancing our allies' national prestige and allowing them to reap the benefits of this major technological undertaking, participation in the Space Station will underscore the unifying effects of high technology cooperation.

At your request, NASA Administrator James Beggs visited the Summit capitals in March to explain your Space Station decision, to reiterate your invitation to them, and to emphasize your interest in a Summit declaration which would symbolize alliance unity. At space/technical agency levels, there was universal enthusiasm for cooperation. At the political levels, the reactions varied from guarded to already committed. The Italians declared that they will participate in the program. The Japanese made it clear that Nakasone will commit to you in London, but that there would be no advance indication. In subsequent follow-up, however, the French, Germans and British all said they could make no commitments in time for a Summit announcement, though talks in all capitals left us with the strong impression that all would eventually agree to some form of participation.

The U.S. has asked for a political commitment from the Summit nations that they will cooperate in the development of an International Space Station. From the U.S. point of view, such a declaration at the Summit would serve as a highly visible demonstration of our intention to work together. From the foreign point of view, this non-binding commitment should serve as the political underpinnings for future decisions and

negotiations with the U.S. aimed towards developing specific, mutually beneficial, cooperative programs. At London, you should reiterate the invitation, note that participation in the design stage need imply no commitment yet to build hardware and indicate that we will proceed in any case with those who wish to participate.

5. Environment and Technology

We can expect a strong push from Canada and the FRG on the need for action to reduce sulfur dioxide emissions immediately. Both are convinced that these are the cause of acid rain and that action to reduce emissions will relieve (if not solve) the problem. Our policy is based on developing a clearer understanding of causes and effects before undertaking any added control actions, estimated costs of which range from \$3 to \$5 billion and more. We have proposed a doubling of the domestic acid rain research in FY 1985 and other measures to develop new technologies. However, Canada wants action now to reduce emissions ranging from 30-50% on 1980 levels (though Canada itself has not taken as stringent action as we have since 1976 to reduce emissions).

Germany is leading a similar movement in Europe. Earlier this year, an effort to get a commitment to a 30% reduction at a meeting of the Economic Commission for Europe (ECE) failed mainly because of Soviet resistance. We support the European movement to reduce sulfur emissions while maintaining the integrity of our own position. We can agree to enhanced international cooperation in research into causes and effects and the development of new technologies, but not to commitments to implement new control regulations until causes and effects are better known.

The Summit will receive a report on progress in cooperation in high technology under the program initiated at Versailles. The report makes some low-key criticism of the side-effects of the effort to strengthen controls over the transfer of critical technology to the East (i.e., increased government intervention in trade in such defense-related technology and products, and restrictions on access to scientific discussions). We have proposed changes which underline the need for working to broaden the consensus among us on economic relations with the East, which tends to strengthen the case we are making on that issue.

6. East-West Economic Relations

We have been working closely with our Allies to define a Western consensus for a comprehensive and prudent economic relationship with the Soviet Union and the countries of Eastern Europe. The key elements of this "prudent" approach are:

- no subsidization of the Soviet economy by offering preferential trading terms or financing;
- restriction of items or technology which would increase Warsaw Pact military capabilities;
- maintenance of trade with the East on the basis of a balance of advantages;
- avoidance of dependency on the Soviet Union as an energy supplier.

The basis for such a common allied economic strategy was established in late 1982 when our allies agreed to undertake appropriate reviews of trade and economic policies in the OECD, IEA, COCOM, and NATO. While work is still underway, solid progress has been recorded in all the key areas. Changes in the OECD export credit consensus arrangement have significantly lessened subsidization of export credit financing to the Soviet Union. Significant measures have been taken by our allies to strengthen the administration and enforcement of the COCOM controls. A major COCOM initiative is now underway to achieve greater cooperation with COCOM controls from technologically advanced third countries. The allies are seriously studying alternative sources to reduce the risk of over dependence on Soviet gas supplies, and NATO has agreed to undertake a sectoral review of Soviet industries which contribute to their military capabilities. Our allies have demonstrated some hesitancy, however, on specific measures which they perceive as unduly reducing their overall trade levels with their customary Eastern European or Soviet customers.

We still need to work with our allies to complete work on: (1) developing alternative energy sources, (2) resolving differences in the COCOM list review on certain important issues such as the level and types of computers, computer software and certain other strategically important equipment and technology which should be controlled, (3) a NATO analysis of industrial contributions to Soviet military capability, and

~~CONFIDENTIAL~~

- 8 -

(4) the OECD study regarding Warsaw pact countertrade practices and their negative impact on East-West trade. We want the Summit to endorse the need to continue this work to broaden our consensus on the economic and security implications of East-West economic relations.

~~CONFIDENTIAL~~

B. LONDON SUMMIT: POLITICAL THEM.

~~CONFIDENTIAL~~

LONDON SUMMIT: Political Themes

The London summit takes place at a time when European self-confidence remains at a low ebb, in spite of our important victory on INF. While our overall relationship with Japan, despite trade tensions, is the best it has been, questions are being raised in Europe about our approach to relations with the Soviet Union generally and arms control in particular; future directions for transatlantic security cooperation; and whether increased US attention to the Pacific Basin foreshadows a reduced commitment to Europe.

At the same time, the mid-May OECD Ministerial in Paris and meeting of NATO Defense Ministers in Brussels, together with the subsequent gathering of Alliance Foreign Ministers in Washington to mark NATO's 35th anniversary, will have demonstrated yet again the enduring solidity of the relationship. These meetings will have shown that debate and differences notwithstanding, a lasting consensus on basic domestic and foreign policy issues continues to inform our relations. They also will have testified to our commitment to close consultations with our friends and Allies and to coordinated efforts in pursuit of shared objectives.

You will thus want to use the summit, as you did in Williamsburg, to underscore the fundamental health of the industrial democracies; the vitality of their relations with each other; and the breadth of their shared interests and the relevance of their policies to mankind's present challenges and future prospects. In so doing, you should:

-- underscore the coherence and continuity of American leadership and our commitment to close and effective consultations with our friends and Allies;

-- strengthen the Summit leaders' sense of shared interests and linked futures;

-- explain our approach and stress our commitment to a more stable and constructive relationship with the Soviet Union.

-- set out our views on the current and prospective arms control agenda, including the necessity of treating arms control as a means to strengthen security rather than an end in itself.

DECLASSIFIED

~~CONFIDENTIAL~~
DECL: OADR

NLS F00-147#3157

BY LOJ NARA, DATE 6/23/06

-- encourage close consultations on the Middle East and Iran-Iraq war, and coordinated actions where necessary and appropriate.

-- bring the Allies up to date on our evaluation of the terrorism threat and steps we should be taking, individually and collectively, to deal with it.

-- review our balanced approach to achieving security, democracy, and economic progress in Central America.

Themes you will want to emphasize during summit discussion of political issues include:

West-West Relations

-- Future is with the industrialized democracies; we share global interests and common purposes. But present and future challenges require more effective "trilateral" (Europe-America-Japan) approach.

-- Our commitment to Europe and Japan remains firm; NATO Alliance and U.S.-Japan Mutual Security Treaty continue to be keystones of security in Atlantic and Pacific.

-- NATO Alliance is healthy, its structure sound and its strategy valid.

-- U.S.-Japan defense cooperation also effective, although we continue to hope Japan can quicken the pace of its own defense efforts.

-- U.S. attention to Pacific Basin is natural result of economic ties and security concerns and expression of traditional U.S. interest.

-- Security of West and Japan is indivisible, as we stated in Williamsburg. U.S. efforts in the Pacific support Western security writ large.

-- European-American-Japanese "trilateralism"

East-West Relations

-- U.S. dedicated to building more stable and constructive relations with the Soviet Union.

-- Our approach based on realism, strength and dialogue is the most effective alternative and is producing results.

-- Allied firmness, solidarity, and due attention to defense are essential to success.

-- Europe and Japan must contribute to international security efforts on which we all depend.

Arms Control

-- Administration deeply committed to effective arms control as essential element in strengthening peace and security.

-- Agreements must be equitable, militarily significant, and verifiable.

-- Our efforts in both the nuclear and conventional fields speak for themselves:

o In spite of unjustified Soviet interruption of START and INF talks, US prepared to return to the table immediately and without conditions.

o In MBFR, NATO has put forward significant new initiative aimed at helping the Soviets extract themselves from the "data" problem without sacrificing our security interests.

o At the Conference on Disarmament we have tabled a treaty providing for the abolition of chemical weapons and containing unprecedented verification provisions which would ensure confidence in compliance.

o Within CSCE context, Allies have tabled concrete measures in Stockholm CDE aimed at reducing risk of war in Europe and are prepared to consider any serious Soviet proposal.

-- As in East-West relations generally, Allied solidarity essential if we are to achieve our objectives.

-- Administration committed not to take any action that would increase threat to our friends and Allies in the Pacific.

Middle East/Iran-Iraq

-- In extremely difficult circumstances, we did the right thing in Lebanon; Allied collaboration gave peace and stability a chance and should be positive lesson for future.

-- Closest possible consultations on Middle East will continue to serve us well and be basis for coordinated effort where appropriate.

~~CONFIDENTIAL~~

~~- 4 -~~

-- In the Gulf, we must continue to share information, conduct appropriate contingency planning, and dampen conflict.

-- Continued consultations in IEA are necessary to ensure we are prepared to act in coordinated way in event of oil disruption.

Terrorism

-- Nature and methods of terrorism changing and we must develop effective measures to deal with this threat.

-- Must take into account severity of threat to life and national interests and increasing evidence of state support for terrorist acts against West.

-- U.S. prepared to take appropriate actions to counter this threat.

-- Our efforts will of course be consonant with our basic values and principles.

Central America

-- Allies must understand seriousness with which we take situation in Caribbean/Central America.

-- This is potentially direct threat not only to security of immediate neighbors, but to U.S. and our ability in a crisis to support friends and Allies.

-- We seek to strengthen security, stability and prospects for peaceful change in Central America through balanced program of political support, economic assistance, and military cooperation.

-- Welcome fuller Allied understanding of our efforts and objectives and greater role in working for consolidation of moderate, democratic governments which can provide structure for peaceful progress and popular sovereignty.

~~CONFIDENTIAL~~

C. COUNTRY PAPERS

~~SECRET~~

COUNTRY PAPERS

Table of Contents

1. Canada
2. The European Community
3. Federal Republic of Germany
4. France
5. Italy
6. Japan
7. United Kingdom

DECLASSIFIED

White House Guidelines, August 28, 1997

By J.S. NARA, Date 1/22/05

~~SECRET~~

1

~~CONFIDENTIAL~~

CANADA

Canada's Summit position will be conditioned by Prime Minister Trudeau's imminent retirement, his concern with securing his place in history, and the near certainty of a Canadian election in 1984. Trudeau is likely to support most U.S. economic positions, particularly those he thinks will protect the recovery and thereby enhance his government's reputation for economic competence. On such political issues as arms control and acid rain, however, Trudeau is likely to insist on Canadian positions and be less concerned with maintaining Summit harmony.

Economic recovery is now more rapid in Canada than in most Summit countries, although lagging the United States. Trade relations with the U.S. have improved dramatically during the Reagan Administration and discussions are underway for free trade with the U.S. in specific categories. However, weaker (than U.S.) recovery, poor investment climate and higher inflation are driving Canada's dollar down and interest rates up, an unwelcome conjunction. Canada's double-digit unemployment (not improving) and the slow recovery of investment mean acute sensitivity to rising interest rates. Trudeau is likely to criticize U.S. budget deficits.

Trudeau will highlight structural adjustment as a key element. He believes multilateral cooperation or even coordination of adjustment strategies could aid Canadian recovery. Trudeau may propose creating a "data bank" of industrial restructuring experiences to be shared in the OECD. He probably will urge continued trade liberalization and endorse a new multilateral trade round for later in the decade. He will emphasize long-term solutions to Third World debt, rather than crisis management, through increasing World Bank and private capital flows, as well as better export earnings sustained by recovery in DC markets.

Trudeau favors the space station, but will hesitate to agree without European involvement. He will raise acid rain, though will not press it to a confrontation if we oppose the Summit mandating new controls now. He will urge a strong commitment to arms control if there is a "political" communique.

~~CONFIDENTIAL~~
~~DECL: OADR~~

DECLASSIFIED

NLS F00-147# 3158

BY LDT, NARA, DATE 6/23/06

2

~~CONFIDENTIAL~~

THE EUROPEAN COMMUNITY

The EC is making progress toward the resolution of its critical problems (CAP reform, revenue shortfall, Spanish and Portuguese membership). The Ten recently agreed on an agricultural package, including 1984-85 support prices and measures to curtail milk production. However, farm prices were raised again for the major producing countries. Reform falls short far of what is needed to end the EC's artificial stimulus to ever larger surpluses dumped on world markets with the aid of export subsidies.

One stumbling block is EC finances. Mrs. Thatcher is blocking a needed increase in EC revenues until agreement is reached on limiting the UK contribution. A solution is expected no later than the next EC Summit (June 25-26 in Fountainbleau); meetings between Mitterrand, the current EC President, and Thatcher and Kohl in early May could produce agreement.

The final EC package will certainly not solve key U.S.-EC differences over agricultural export subsidies, and other policies affecting U.S. exports of grain, poultry, canned fruit, raisins and other agricultural products. As part of the package the EC also decided to use GATT procedures to seek to restrict U.S. exports of corn gluten feed, now worth over \$500 million a year, despite our warnings that it would be virtually impossible to agree on "compensation" (an alternative concession) because of the size of this trade and its close relationship to our \$4 billion trade in soybeans and other oilseed products. Unilateral limitations by the EC would certainly provoke U.S. retaliation. This issue is likely to be the major U.S. trade problem with the EC in 1984.

The Europeans are concerned about U.S. industry petitions seeking to limit imports of steel, shoes, and machine tools. Other issues include unitary tax and extraterritoriality, including a perceived tightening of U.S. export controls in the EAA. Europeans also worry about losing competitiveness in high technology to the U.S. and Japan; some are tempted by "infant industry" protection for their "high-tech" industries.

On the positive side, the Commission agrees with the need for a new trade round but has reservations about timing and scope. Also, U.S.-European divergences over macro-economic policy have diminished as European governments increasingly realize their economic problems are of domestic origin, and that increased flexibility and reduced government spending, should be their goals. Even France has adopted this view. Improved economic performance in Europe has also helped.

~~CONFIDENTIAL~~
DECL: ~~OADR~~

DECLASSIFIED

NLS FOO-147#3159

BY LOJ NARA, DATE 6/23/06

3

~~CONFIDENTIAL~~

FEDERAL REPUBLIC OF GERMANY

Kohl's positions at the Summit -- which should generally be supportive of ours -- are to be seen in the context of his growing confidence in the recovery of the FRG economy. After three years of recession, real GNP growth this year may well exceed 3%, inflation has been brought down to 3%, and although unemployment remains a serious problem at over 9% it appears domestically tolerable. Despite complaints from some FRG sophisticates about the uninspiring leadership image of Chancellor Kohl, he seems to retain voter support. The SPD opposition remains largely leaderless and uncertain whether to abandon, at least tacitly, its emphasis on INF and stress bread-and-butter economic issues of interest to its traditional supporters. Genscher's FDP is becoming progressively weaker and faces an uncertain future.

The FRG will join us in seeking a Summit outcome which bolsters confidence in the economic recovery that has taken place and calling for it to be broadened and sustained. The Germans support cutting budget deficits and controlling inflation and government spending. They are expected to underline their traditional endorsement of free trade and condemnation of protectionist measures. They will want the focus of the Summit to be on economic growth, trade and finance. They can agree that preparations for a new trade round should begin in 1985, and they will support better coordination of financial policies.

Internal differences within the FRG bureaucracy on North/South and aid issues remain. The Foreign Ministry supports a prominent Summit role for the problems of debtor countries while other German agencies resist such emphasis (particularly an expansion of World Bank activities). We believe Kohl will reject the Foreign Office position. However, he will emphasize the environmental issue, in part as a backdrop for the acid rain meeting the FRG will host in Munich later in June. As to the U.S. proposal on the space station, the FRG is enthusiastic in theory but is demonstrating a "show me" attitude on the substantive benefits of a station before it makes any concrete commitment. The FRG Interior Minister has recommended that the Summit address terrorism, but Kohl's position is unknown. The Germans do not expect energy or East-West issues to receive much attention.

~~CONFIDENTIAL~~
DECL: OADR

DECLASSIFIED
NLS F00-147#3160
BY LOJ, NARA, DATE 6/23/06

4

FRANCE

President Mitterrand's political and economic leadership continues to face many challenges in 1984. A stagnant economy has eroded popular support and could stimulate further social unrest. The French Government is now pursuing a classic austerity program which puts its economic policy in greater convergence with those of the US and France's major trading partners. The government's economic stabilization program consists of increased taxes, fiscal restraint and temporary wage/price freezes. This is a significant shift in the government's macroeconomic policies compared to the initial burst of economic and social reforms following the landslide Socialist victory in 1981. The austerity program has proved moderately successful. The trade deficit has nearly halved, though the inflation rate has continued in the 7-8% range instead of the targeted 5%. GNP growth has been projected to remain flat, with unemployment over 9%.

Mitterrand's apparent determination to pursue the austerity program, industrial restructuring, an unpopular incomes policy and certain social reforms has been politically costly. His popularity in the polls hovers at around 35%. The voting trend in recent local elections has favored opposition candidates. Mitterrand faces increasing criticism from his Communist partners in the government (who accuse him of "Reaganism"). He has also come under criticism from some elements in his own Socialist constituency. The Opposition continues to hammer away at the government's policies, but no single opposition figure has managed to capitalize fully on popular disenchantment with the left.

With the austerity program in place, the Mitterrand Government has now focused on industrial restructuring. With nearly one-quarter of industrial production and one third of industrial employment in the nationalized sector, the government is stressing the reduction of costs and losses in the traditional industries. At the same time, Mitterrand has invested much faith and political capital in the so-called "third industrial revolution", with the intention of using government to push France in the high-technology direction of the United States and Japan. France has reservations about the new trade round for fear that its own objectives in high-tech will be undermined by liberalization.

The French have been reticent about revealing their ideas for the Summit, but Mitterrand may advocate ways to accelerate the process of change through adaptation to new technologies. Mitterrand is unlikely to press hard for an agreement on an international monetary conference, but may reiterate his views on why a conference is desirable.

DECLASSIFIED/RELEASED
NLS F00-147#3161
BY LOI, NARA, DATE 6/23/06

5

ITALY

Prime Minister Bettino Craxi, age 50, presents a new image of dynamism in Italian politics. As Italy's first postwar Socialist Prime Minister, he came into office last August determined significantly to reshape Italian political life by implementing long-overdue structural reforms and by emphasizing economic rationality. Craxi's long-term goal is to build his Socialists and other smaller parties into an alternative to the entrenched, lethargic Christian Democrats, while gradually eroding the influence of Italy's large Community party (PCI). However, Craxi's reach has so far exceeded his grasp. Institutional reforms have languished and anti-inflationary targets of wage moderation and deficit reduction remain elusive.

Italy's economy has stagnated over the past two years but, led by exports, is beginning to turn upward as another European beneficiary of the US recovery. However, the country has had only marginal progress in reducing the inflation differential between it and the other OECD countries. (The gap hovered around 10 percentage points in 1983, with Italian inflation currently at 12%.) Unlike past economic turnarounds, exports alone cannot continue to pace Italy's nascent recovery. Major reductions must be made in the bloated public deficit, which currently amounts to over 15% of GDP.

Craxi's program has focused on improving revenue collection and on exerting greater control over indexed wage increases. Invoking constitutional emergency procedures, Craxi took the bold step of implementing a reduction in wage indexation through decree. The PCI reacted to this unprecedented challenge to its traditionally asserted "veto right" on major social legislation by mounting a maximum opposition effort, and succeeded in blocking passage in Parliament. This measure, perhaps the keystone to Craxi's economic program, thus remains unimplemented, at least until the June European Parliament elections. The political tug of war continues. Its resolution will foreshadow the outcome of Craxi's entire economic platform.

Since Craxi is striving for austerity at home, he is sympathetic to US efforts toward more restrictive fiscal policy. He would like the US to lower interest rates which Italians assert are still too high in real terms causing an overvalued dollar. Italians also complain about disruptive effects of flexible exchange rates on world trade and investment.

On trade, Italy like other EC countries perceives the US, not Europe, as the principal protectionist sinner. What the Italians seek most, as a country highly dependent on exports to the US, is continued access to our market. They are less enthusiastic about a new round of trade negotiations.

DECLASSIFIED/RELEASED

NLS F00-147#3162

BY LOT NARA DATE 6/23/06

6

JAPAN COUNTRY PAPER

Japan's economic recovery is well underway, though at a much more gradual pace than in the U.S. It began with an acceleration of exports, mainly to the U.S, but is becoming more balanced as the export stimulus spreads to other sectors. Real 1983 GNP growth was 3.0 percent but it could be around 4.0 percent this year. Inflation is less than 2 percent and unemployment stands at less than 2.8 percent. Japan's overall current account surplus, about \$20 billion in 1983, could increase substantially. The GOJ announced a comprehensive package of trade liberalization measures April 27 designed to address U.S., European and LDC concerns, and may announce further trade and financial measures before the Summit.

Prime Minister Nakasone emerged from last December's electoral set-back in some ways stronger than before the election, although the Diet budget process did not go as smoothly as he had hoped. He clearly has his eye firmly on reelection as LDP President next November and has cancelled two foreign trips -- one to Europe after the Summit -- to concentrate on getting his legislative program through the Diet. Nakasone thus can be expected to try to extract maximum mileage out of his participation in the Summit to enhance the image he established last year at Williamsburg as a vigorous and constructive leader capable of interacting on an equal basis with European and North American heads of state. He will want to be able to point to some initiative as his personal contribution, such as movement toward a new trade round, which he has strongly advocated, or attention to LDC concerns.

The main economic areas of interest to Nakasone will be the rollback of protectionism, progress towards a new MTN round, and the LDC debt situation and other aspects of North-South economic relations. If interest rates are discussed, Japan is likely to join those calling for steps to reduce U.S. rates. Nakasone will report on the result of a conference of the Japanese Foundation on Life Sciences held last month and will expect appropriate follow-up steps to be discussed, although he will not propose follow-up action himself. He will also be prepared to support the US space station initiative.

In the political area, Nakasone will seek to emphasize Japan's identification with the West, as he did last year at Williamsburg when he associated Japan with the political declaration. In return, Nakasone will seek a reiteration from the Summit partners that the security of the West is indivisible, reflecting Japan's continued concern about a possible INF or other arms control agreement that might not fully address Asian security interests. There is also working level consideration in the GOJ of proposing a Summit statement calling on the Soviet Union to return to arms control negotiations. However, this has not received high-level approval and we are assured that the idea will be fully aired with us before Japan moves ahead in this direction.

~~CONFIDENTIAL~~
DECL: OADR

DECLASSIFIED

NLS F00-147#3163

BY LOT NARA, DATE 10/23/06

7

UNITED KINGDOM

Domestically, Mrs. Thatcher continues to dominate the political scene. Despite some mini-crises -- Grenada, the Parkinson scandal, and a battle over deunionization of workers at a government intelligence center -- she seems confident about the future and is steady on her course. She is somewhat more pragmatic than in the past, but critics maintain that she has not projected clearly what she wants to accomplish in her second term. Meanwhile, Labor has moved up on the polls, but mostly at the expense of the SDP/Liberal Alliance. Labor Party Leader Neil Kinnock has moderated the party's rhetoric on some issues, but remains committed to unilateral nuclear disarmament for Britain. Extremists in Labor, such as Tony Benn, will try to keep Kinnock loyal to those leftist policies which British voters so overwhelmingly rejected last June. The Alliance's hope of becoming the alternative party rests both on the continuation of Labor's leftward drift and disarray and on its own ability to present credible alternative programs. The former may be happening, but there is no sign of the latter.

Price stability, with a sharply diminished role for the public sector, has been the keystone of HMG's macro-economic objectives. Thatcher has made significant progress in restoring balance to key areas of the UK economy. Inflation has declined sharply, the budget deficit has been kept under relatively tight control, wage increases have moderated considerably, manufacturing productivity has increased sharply, and interest rates have fallen significantly. This progress was achieved in the context of two years of low growth followed by recovery starting in 1982. But record unemployment has persisted. The government is optimistic that 1984 performance will be quite good, in historical terms, with real growth reaching 3% per annum and inflation dipping below the 5% mark. The financial markets and the general public reacted favorably to the March budget presentation which contained some potentially sweeping tax reform measures.

Because HMG wants to have a successful Summit which will reflect well on its leadership, it is drawing both substantively and operationally on the highly-regarded Williamsburg pattern. On structural adjustment, the British will try to get others to adopt the "right policies" such as those the Thatcher Government has already instituted. They are concerned about the USG deficit and high interest rates and will so state; at the same time the Prime Minister is conscious of the US political scene and will try not to embarrass the President. HMG will support us regarding the need for a new trade round but would like more emphasis on IBRD and IDA in the debt strategy. The British have the lingering feeling that the Summit may not be the right place to discuss or agree on a manned space station. Though the Prime Minister continues to be concerned about the extraterritorial issues, we do not expect her to push that general topic at the Summit. Privately, she may emphasize continued desire for consultations and enhanced East-West dialogue.

DECLASSIFIED/RELEASED

NLS F00-147#3164

BY LDT NADA DATE 10/22/06