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MR. CANTY

cc: PS/No. 10 ✓
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Sir A Acland
Mr. Johnson
Mr. le Breton

SECRETARIAT RECORD OF FIRST EXECUTIVE SESSION

Thank you for your minute of 19 October, attaching the provisional record of the First Executive Session.

I have made a number of changes to the record of the Prime Minister's introduction of the discussion, which should be passed to the Secretariat. They are noted in manuscript on the copy of the record attached.

RTA

R. T. Armstrong

19 October 1985

ITEM 3. WORLD POLITICAL SCENE

(a) Global Trends and Prospects

MRS. THATCHER, Britain, introducing this Item said the topic under consideration was an enormous one, and she would deal with it under four sub-heads: the East-West situation and its impact on other countries; the changing patterns of world trade and technology; the persistent conflicts in the world political scene; and the international framework within which the above problems were tackled.

fundamental Turning to the first issue, the East-West situation and its impact on other countries, she said that there was a difference in ideology between the East and the West. In the East there was the Soviet system, an economic system within which people had to confine their activities and make their decisions. On the other hand, there was the Western System based on human rights; where the Government existed to serve the aim of human rights, to try to maximise the liberty of the individual and to set the rules by which people lived together. *o/*

and giving more opportunities for decisions at regional and even at individual level There were very interesting political developments in the communist world which Heads of Government should note and might comment on. In the communist world, the present Chinese Government was taking a very different approach. It had concluded that its previous system was not producing a sufficiently good standard of living or prospects for its people, and was therefore liberalising considerably on the economic scene. It was moving to a system which emphasised better incentives and a decentralisation in decision-making away from the centre and ~~out to many individual factories and industries~~. That very substantial change could have far-reaching consequences for the wider world though these were hard to foresee precisely. It was especially notable for the Commonwealth that the incentive system could have great implications for the future; the system had worked in Hong Kong and produced a tremendous standard of living for its people. China was only taking a small step towards a freer economy but she hoped that small step would be followed by others because it was the way to achieve a higher standard of living.

likely to happen She considered next how far that kind of political movement, that relaxation of the controls, that increase of individual enterprise and initiatives, was in the Soviet system. Each of the satellite countries in the Soviet socialist system was becoming more aware of its own national identity and was trying to maximise the degree of freedom it had. Perhaps the most obvious example was Hungary, which had more economic freedom although this was still comparatively small. It was clear from the very long discussions which herself, the Prime Minister of India and a number of other Heads of Government had had with Mr. Gorbachev that one of the problems currently facing the Soviet Union was the low standard of living of most of its people and their desire to improve it substantially; this was apparently getting through to the current Soviet Government, but it now had to be considered, and was in her view doubtful, how far a higher standard of living would have priority in its policies. It was the most rigid regime that the world had ever known. There was now a realisation in the Soviet Union, among many academics at any rate,

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that achieving a higher standard of living would mean decisions to give more power to the people, more private ownership of land which had been taken away and better incentives. It would be interesting to note whether the Soviet Union followed China's example, which would mean undermining the Communist system. Mrs. Thatcher did not believe that would occur substantially, but considered that, even in that very highly centralised system, the natural wishes of the people for a higher standard of living could not be wholly ignored in the consideration of economic priorities. That conclusion had implications for the great talks about arms control, perhaps one of the most significant events in the current political year. In the best interests of both the people of the Soviet and the Western systems, it was necessary to ensure, on a basis of respect for each other's security, that no conflict ever breaks out again.

Referring to the arms control talks on nuclear weapons which had taken place in Geneva, Mrs. Thatcher said that they had become deadlocked; and further progress might be slow, in view of the impending talks between the Heads of Government of the United States and USSR. It was to be hoped that the forthcoming summit between Mr. Reagan and Mr. Gorbachev would not only lead to them becoming better acquainted, a process which was itself of importance and should continue, but would resolve the difficulties which had arisen in the Geneva arms control talks, and would lead to a genuine and very significant reduction in nuclear weapons; the two leaders had tabled slightly different proposals. Without going into detail on this complex technical subject she hoped for a significant reduction in the nuclear armaments of both East and West because there were far too many for the ~~the~~ purpose of deterrence.

Referring to the Strategic Defence Initiative, she said that support for it among free peoples as a defence to nuclear weapons should not be underestimated. Over the centuries, as more and more dangerous weapons became available, each had called forth its own ~~incomplete~~ defence. It would, therefore be astonishing if the nuclear bomb did not elicit a defence, or if democratic peoples tried to prevent a defence to the weapon developing. This was felt very strongly in the United States, and by its President.

Regarding the question of how to deal with the development of such a new defensive weapon, the Anti-Ballistic Missile Treaty between the United States and Soviet Union made provision for such a contingency. The Treaty did not prohibit research, because it was difficult to monitor or verify. Research was going on in the Soviet Union; indeed, the Soviet Union had probably been ahead of the West in the development of laser and anti-satellite weapons, which the United States had not had. The research was being carried out on both sides. The Treaty required negotiations if those weapons were to be deployed as had been made clear in her talks with the President of the United States. Security did not come from one being very strong and the other very weak. Such an imbalance was a temptation to war, as the last World War had shown. Mrs. Thatcher said that ~~there was security when there was~~ balance, mutual respect, verification and confidence. Britain wished to secure those objectives, making it very clear that there must be negotiations if it came to deployment of those new weapons.

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With so much concentration on nuclear weapons, the idea needed to be challenged that conventional weapons were acceptable. They were not. Fifty million people had lost their lives during the Second World War; since then, in 140 conflicts 10 million people had lost their lives. It was therefore important to remember that in Vienna very significant talks on conventional weapons and their reduction had been going on for the last ten years. However, those talks had not yet even secured from the Soviet Union the precise numbers of their forces in conventional arms. There was still no database from the Soviet Union on the precise numbers of people and weaponry from which reductions could be proposed.

Other talks going on, on chemical weapons, were also very significant, particularly in view of events in the Iran-Iraq War. Chemical weapons were among the most dangerous the world had ever known and biological weapons were even more dangerous. Britain had given up chemical weapons, and the United States had not produced any more for the last 20 years, but that was not true of the Soviet Union. Chemical weapons should be considered in the forthcoming talks between Mr. Gorbachev and President Reagan.

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Turning to other aspects of East-West relations, Mrs. Thatcher said they had never found a way to deal with the subversion that was practised by the Soviet Union in other countries, which could be almost as destabilising as war itself. This was an aspect which needed to be considered in discussing the security and the stability of small island states as friends in the Caribbean and elsewhere in the world were very much aware. Such subversion had a tremendous effect on the whole of the rest of the world. In this regard, Mrs. Thatcher entered a plea that the term "the Third World" should not be employed, because it gave the impression that there were three worlds whereas in fact all were one world. Each nation had its right to decide upon its own political system, and in doing so had to take into account its own cultural history and its conventions. Terms such as "East" and "West" and the "Third World" belied the truth that it was really one world.

Turning to her second heading viz. the changing pattern of world trade and technology, Mrs. Thatcher said that the world had seen enormous changes in the previous 20 years, which had a profound effect on world politics and on the kind of messages passed to politicians from the people. The most significant change in the pattern of world trade had been the striking developments in the Western Pacific countries, showing how fast the progression could be from an underdeveloped country to a highly developed country. Based on free economies, these countries had shown the enterprise, the vigour and high standards of living which could be achieved in a free society. Hong Kong was the outstanding example, its population had expanded from six hundred thousand to four and a half million over 30 years, but it had achieved a very high standard of living through its own effort and enterprise by a policy of few controls, low taxes and maximum freedom to the people. Taiwan had also become a very important producing country, as had South Korea, Singapore and, perhaps most obviously, Japan.

The result was that many products formerly manufactured in Europe were now made in those countries.

In the nineteenth century the manufacturing base of textiles started to shift to the first newly-developing countries. That had created problems which have persisted. Now there was another wave of many products which used to be made in Europe now being produced more efficiently as far away as the Pacific Basin, with the latest capital equipment and with a labour force that was sometimes lower paid.

Alongside the changing pattern of world trade was the tremendous revolution in world technology. The main development had been the change to the microchip, the microcircuit and the microsystem. That had an effect on products and a colossal impact on commodity markets. In setting up industries today, it was possible to go into steel, into large-scale shipbuilding (which had moved East), or into the world of computers and microcircuitry. Mass production was now controlled by computers and microcircuitry, and setting up *big 7 companies* required much less steel and copper, and ~~the~~ products required much less tin. There were many new substitute materials. Radios and computers did not require the same amount of steel, metalwork, or copper for the wiring. These trends had had a colossal effect on commodity markets, because the demand that used to be there for the old-fashioned type of industry was not there for new products which could be made very much smaller.

One of the opening speakers

A representative had said yesterday that in manufacturing, prices never went down. They did. A radio or a pocket calculator could be bought much more cheaply now than twenty years ago, when an enormous outlay was required, while electric lightbulbs could be bought much more cheaply now than when they were first invented.

These two developments had led to a demand on the part of some Western countries for protectionist measures, as people saw their jobs disappear or the dislocation caused. People knew full well what all Heads of Government knew: The march of science could not and should not be stopped, because in the end it gave everyone a higher standard of living. However, the dislocation both in Western societies and in those developing countries which depended upon certain primary commodities for their income had been enormous. That was what they should discuss together.

A higher standard of living for everyone would not be achieved if there was a surrender to that demand for protectionism. One of the messages which Britain, as a great trading nation, had to try to get across to its people, in the face of industries moving away, was that in the end only higher technology and freer and fairer trade would lead to a rising standard of living.

A demand for protectionism was noticeable in Britain, and also to a tremendous degree in the United States; the attempt had to be made to resist it. She felt that all Commonwealth countries were in some measure guilty of protectionist practices; none had an absolutely clean sheet. The objective, however, must be to try to reduce protectionism in order to achieve higher standards of living and create more jobs.

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The changing patterns of world trade, especially internally, which were giving everyone great problems. A country with a predominantly rural economy which was self-sufficient in agriculture somehow had a much greater political strength. She was concerned to see some developing countries with colossal agricultural potential turning away from agriculture and having to import a lot of food - absurdly, in view of the richness of some of their soil - and their young people migrating to towns. As well as the lack of agricultural independence the very migration to towns also caused problems. She wondered whether the Meeting could issue a message on the subject.

She had noted what colleagues had said yesterday. There was no future in some of the developing countries - such as Ethiopia, Sudan and some others - becoming food pensioners to the surpluses of the West. That way did not lie stability nor the kind of economic independence that was desirable. She greatly admired those countries whose Heads of Government had declared that their duty was to be able to feed their own people well and only then add manufactured products.

The changing patterns of world trade created enormous political complications and impact. Nations should stick to the fundamentals, eschewing protectionism in favour of free and fair trade, and take the lessons they had learned from countries which, starting from nothing, had very quickly built up an extremely high standard of living through the enterprise and vigour of the people rather than through a highly controlled society.

She knew that Heads of Government constantly observed that she was very much aligned, particularly in matters of defence and in the political ideology which she espoused. She noted, however, that China and other countries wanted to raise their standards of living. The answer was deregulation, de-control, incentives, more decisions made by those who knew about business and production, and less interference.

Turning to her third heading of persistent conflicts, and selecting from among many possible examples, she declared that Heads of Government should never forget Afghanistan. Not only did it create an enormous refugee problem, but if it persisted it would also do potential damage to the whole of the Subcontinent, especially since it was right next to Iran. The Iran/Iraq conflict showed something comparatively new in international conflicts, a new religious fanaticism which had been seen partly also in India, giving rise to a new type of terrorism which went far beyond the borders of those countries and had consequences for them all. Normally there was one advantage with the kind of terrorists with which Britain had accustomed to dealing: the terrorists did not necessarily like to sacrifice their lives if they could avoid it. It was a different kind of terrorism however, when it was one of the terrorists' objectives to destroy their own lives, provided they were seen to be doing so in destroying other people's lives as well. The world therefore had a new kind of terrorism with which to cope. There was also the very prevalent factor that the extremists always tried to prevent the moderates from negotiating and coming to a peaceful settlement. This was happening in Sri Lanka with the Tamils. It was a matter of great concern to all.

In Iraq there were hopeful signsⁱⁿ that some of the anticipated offensives had not taken place. She believed that many people could no longer accept the carnage of a whole generation of young people being thrown into battle to no good purpose. Fortunately the pace of that war had diminished.

'It was to be hoped that the final word would be with those of the military who did not wish to acquire a bad reputation for throwing soldiers into a pointless battle, and that there would be a settlement of the war.

moderates who were working

Britain had taken a small initiative in the Middle East, trying as always to support ~~those who moderated~~ to get a settlement. It did not succeed, because of threats. That meant that it was necessary to establish a very sound framework within which the moderates could operate.

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to have concerned.

The "battle" in Vietnam and Cambodia was between ~~the~~ two Communist states, one supported by the Soviet Union and the other helped financially by China. The tragedy, as Mr. Lee Kuan Yew had said at the Commonwealth Heads of Government Meeting in Lusaka, was that Vietnam could have turned to raising the standard of living of her own people, whereas she turned to trying to extend her own borders by attacking Cambodia and was entrenched in guerilla warfare. Britain supported ASEAN in its efforts to secure the withdrawal of Vietnamese forces. It was desirable that the coalition in Cambodia should become more powerful and effective within its own country, because the leadership that everyone wanted to see in order to end that conflict was not in evidence.

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The problem of Cyprus was not yet settled. It was in the excellent hands of Mr. Perez de Cuellar. It was very fortunate that there was such a marvellous person in charge at the United Nations.

The fourth topic was the international framework within which nations had to operate. On the 40th Anniversary of the United Nations Heads of Government were turning their attention to the ideals they had hoped it would achieve and what in fact it had achieved. Although its achievements should not be underestimated, there was no international system of law which was effective and enforceable.

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The United Nations had been quite unable to prevent the Vietnam-Cambodia conflict nor impact upon other conflicts like the Middle East. The international community should preserve the United Nations but look beyond it to identify the other factors on which was based the security that people wanted and expected from the United Nations. Against that background it was absolutely vital that all countries adhered to international treaties and agreements, because unless they did so they could not achieve international security or the rule of law which most countries were trying to operate nationally. Therein lay the difference: Commonwealth countries tried to operate and uphold a rule of law nationally but they had nothing which was very effective or could be enforced abroad.

Because international treaties and agreements were the cornerstones of international society, it was vital that they be upheld. It was vital that the Soviet Union and the United States upheld the Anti-Ballistic Missile Treaty otherwise new uncertainties would arise. So long as it was upheld the negotiations took place under that umbrella. It was vital that SALT II and the constraints it imposed were observed, even if the Treaty was not yet ratified. It was vital that the Helsinki Final Act, between so many countries including the Eastern bloc, be observed in its entirety. This was not yet happening to the full.

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The Non-Proliferation Treaty was in its review year, and had just had a review. One hundred and thirty states, not all United Nations members, had signed the Treaty. Initially it was expected that by 1985 there might be about 20 additional states which would have acquired a nuclear weapon capability. Fortunately that had not happened. She thought that only one had had a test and that China had already had one when the Treaty was signed.

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The Treaty had been fairly effective in preventing further nations from acquiring nuclear weapons and in seeing that nuclear materials were not freely sold to other nations which would not then be able to acquire nuclear weapons even if they wished to do so. It was imperative that that Treaty held and other countries signed it.

Experts predicted the danger of five additional states acquiring nuclear weapons within the next ten years or by the end of the century. That was a new degree of danger which would be highly damaging and very worrying if it came about. It was also another reason why one country should be able to stop a nuclear weapon before it reached its target, should one be launched by another state which did not impose such rigid controls as Britain. It was therefore vital that the Non-Proliferation Treaty was upheld.

Referring back to the changing pattern in world trade and the desire for protectionist measures, she believed it was vital to get agreement on the GATT, because if that failed protectionism would develop. For that reason Britain, the United States and four other western countries wanted another GATT round, to look at the multilateral trading system together and not to have individual countries dashing off to apply their own forms of protection.

In conclusion she wished to repeat some words of President John Kennedy of the United States: "Too often we hold fast to the cliches of our forebears. We enjoy the comfort of opinion without the discomfort of thought." She hoped that if Heads of Government commenced their deliberations with the comfort of opinion, they would proceed by way of the discomfort of thought before reaching their conclusions.

SHRI RAJIV GHANDI, India, said he would like to deal with roughly the same points that Mrs. Thatcher had covered, but in reverse order. One of the greatest advances that civilisation had made was in establishing an order. Historically, the development started with small groups and tribes constantly spreading until it emerged in the form of today's world order. It was by no means perfect. However, there were certain norms, not necessarily laws or rules, under which mankind functioned. The greatest danger to the system, to any system, was that countries started violating, ignoring or abandoning those norms. In dealing with problems, every nation had identified deficiencies in the system. However, the answer lay not in back-tracking or withdrawing, but in tackling the problems positively, and in discussing and modifying the system with a view to making it work for the benefit of all mankind.

The order should be established more securely and not destabilised or removed. Its establishment had been one of the major achievements of the United Nations system and that was why India regarded support for the system as very important at this crucial time. Any country which found the system difficult, for whatever reason, should try to discuss or modify it instead of withdrawing and abandoning it.