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MR POWELL

Yes I have
a copy for the
file - to ponder
can you have to
have met.

Prime Minister

You may like to
ponder over the
13 July 1984

week-end.

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COP, 13/7.

MEETING WITH THE PRIME MINISTER 20 JULY

1. The Prime Minister may like to use the meeting to run over the field of our foreign policy and indicate points of special interest or concern. To provide a kind of base line I attach the First Thoughts paper I sent her in January.

2. Against that background, I think we have done reasonably well.

East West Relations

3. There has been no movement, nor would we expect any at least until Reagan's re-election and possibly well after that. But the Russians have made it easier for the West by their generalised and uncompromising hard line, applied to West European statesmen as well as to Americans. The offer to meet the Americans in September on space issues is the one curious exception and a considerable assistance electorally for the President. The Russians have not played their hand very skilfully, which might suggest their problems are more than tactical.

4. Our own policy has been right. While remaining firm on all issues of substance, we have shown public anxiety to maintain dialogue, (eg the Prime Minister's visit to Budapest and Moscow, the Foreign Secretary's visit to Moscow

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overwhelming advantage in terms of conventional arms. But we have to maintain the discussions.

- c. Chemical weapons. Worrying. If we are to bring the Russians to serious negotiations we shall probably have to encourage the US to take some steps towards restoring its chemical warfare capacity.
- d. Comprehensive Test Ban. I still think this is excluded because of the need for some testing if we are to maintain confidence in the effectiveness of the Western nuclear deterrent.
- e. Nuclear proliferation. We should be thinking of the Review Conference next year and the possibility of doing something to encourage parties to the Non-Proliferation Treaty to maintain their support and non-parties to adhere. An unsuccessful Conference could lead to the non-renewal of the Treaty in 1995.

NATO

7. NATO has remained firm on theatre nuclear weapons, though it was touch and go with the Dutch. We shall need to establish with our NATO partners a line on East/West relations which can be held over a long period, recognising that East/ West relations could remain frozen for that time

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and that there will be pressure on the West from some sections of public opinion to run after the Russians. There is also a need to review NATO strategy and consider if there is any way of raising the nuclear threshold, given financial constraints and the opportunities offered by new military technology. The Prime Minister is planning a seminar on this in October.

Europe

8. After the success of Fontainebleau we can turn our attention to building up Europe, both as a more genuine Common Market and also as a grouping with a clearer defence identity within the framework of NATO. But having said this, I must add that progress is likely to be slow and that for practical purposes we shall still be dealing for the foreseeable future with the same international power structure.

Middle East

9. On the basic Arab-Israel issue, the outlook remains gloomy. President Reagan has promised a fresh US initiative after the elections. We must wait for that. In Lebanon fortunately we have extricated ourselves and things have not fallen apart; in fact they have somewhat improved. In the Gulf, again the worst has not happened. The Iranian land offensive is still a threat, not a reality, and it is likely that the Iraqis will be able to hold it. At sea, attacks on shipping have not been intolerable and the oil market

*Is there
nothing we can
do to influence
it's content?*

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remains relaxed. Some of the burden of responsibility for defence has been transferred to the shoulders of the locals, in particular the Saudis. We still very sensibly refuse to choose between Arabs and Persians. We have stayed very close to the Americans and successfully encouraged caution on their part. So far so good. But there are still possible misunderstandings between ourselves and the Americans. Our closeness implies a readiness to go with them all the way. But we need to preserve our freedom of decision on UK military involvement if the situation were to deteriorate. We should continue to make this clear to them.

Central America

10. The situation has slightly improved in El Salvador and I am glad the Prime Minister will find it possible to see President Duarte. There is no real change in Nicaragua however. We have been over the dangers of the situation and of possible US intervention in other papers and there is little to add. Fortunately our decision to maintain the garrison in Belize enables us to put our views on the area with greater force to the Americans.

South Africa

11. In her talks with Mr Botha the Prime Minister was able not only to give our views on his domestic policies, but also to review recent developments in South Africa's relations with her neighbours. This is one of the few areas of the international scene where there is visible

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improvement and we should do what little we can to promote the trend eg aid to Mozambique to convince Machel that the Nkomati accord does bring benefits. I cannot see the answer at present in Angola and Namibia: the key lies in relations between MPLA and UNITA; but even here there are encouraging signs.

Terrorism

12. I am struck by the amount of Ministerial time that has had to be devoted to this subject in the last six months. In the two main instances, Libya and Nigeria, our policy has been dictated by our reaction to state-sponsored terrorism directed against nationals living in the UK. Our reactions were right and inevitable, but as a result wider considerations eg trade and safety of British nationals abroad have had to be given second place and our policy has become even more reactive, more hand to mouth, than it would otherwise be. I find this disturbing, particularly given the prospect that terrorism is a growth industry and not confined to the lunatic fringe eg Libya. Perhaps we have too large an emigre community here; perhaps we should be more restrictive in permitting entry and more ready to extradite. This would be worth examining. In the meantime all we can do is maintain the closest watch and endeavour via the JIC to keep a move ahead.

Negotiations: The Falklands and Hong Kong

13. On the Falklands, we can only permit very circumscribed

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negotiations and the Argentines may still refuse to bite. We should stick to our terms. In the case of Hong Kong, I think we should just be able to reach a tolerable agreement. If we do, I am sure that history will judge we were right to persevere in this course and once the initial shock is over Hong Kong reactions may prove better and more resilient than seems the case at present. At any rate I hope that at the end of the year we shall have reached a slightly less embattled position in our foreign policy and shall be able to point to one or two areas where solutions are achieved or pending and where we are no longer in a state of confrontation. Europe, Hong Kong, possibly limited talks with Argentina, would be a good tally.

South East Asia

14. In view of the Prime Minister's travel plans we should be beginning to look at Sri Lanka, Malaysia, Indonesia and Singapore. Sri Lanka stands apart, but the others fall into an interesting category - Third World states at the upper end of the market, with promising development prospects and less than Latin American debt burdens. Indonesia in particular, if it could overcome its population problem, could in time become a real power. They lie in the shadow of China. They have large overseas Chinese populations and have benefited greatly from the natural industry of the Chinese once they are released from the restrictions of a socialist economy. They are members of ASEAN. Although China provides ASEAN with a kind of security guarantee

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against Vietnam, Malaysia and Indonesia for historical and racial reasons are inclined to see China as as great a danger as the Soviet Union or Vietnam. Singapore is of course a special case but the three ASEAN countries are interesting economically as well as politically. Above all we have no major quarrels with them.

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PERCY CRADOCK

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