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PS TO PM. 10. DOWNING ST.

TO IMMEDIATE FCO (CABINET OFFICE)

TELNO. 178

OF 13 APRIL 1983

INFO ROUTINE FCO (FOR ERD) AND TREASURY (FOR UNWIN)

INFO SAVING WASHINGTON, TOKYO, PARIS, BONN, OTTAWA

FOLLOWING FOR PS/SIR R ARMSTRONG

1. I HAVE BEEN ASKED TO PASS THE FOLLOWING ITALIAN DRAFT PAPERS FOR THE 17TH APRIL SHERPA MEETING AT WILLIAMSBURG TO SIR R ARMSTRONG FROM THE ITALIAN SHERPA, REMO PAOLINI: STRENGTHENING MULTILATERAL SURVEILLANCE

I - REAFFIRMATION OF OBJECTIVES:

SUSTAINABLE, NON INFLATIONARY GROWTH OF OUTPUT IN VIEW ALSO OF REDUCING UNEMPLOYMENT.

II - DISCUSSION OF MEDIUM TERM PERSPECTIVES:

WAYS IN WHICH DOMESTIC POLICIES, INTERNATIONALLY COORDINATED, SHOULD CONTRIBUTE TO IMPROVE PROSPECTS OF A SUSTAINED AND BALANCED GROWTH. THERE IS EVIDENCE IN SOME OF OUR COUNTRIES OF A SPONTANEOUS RECOVERY FROM STAGNATION, BUT THERE ARE UNCERTAINTIES AS TO THE REAL POTENTIAL OF THIS RECOVERY. ADJUSTMENT AND EXPANSIONARY POLICIES SHOULD INTERACT AND BE MUTUALLY SUPPORTIVE TOWARDS AGREED OBJECTIVES SUCH AS REVITALIZATION OF ECONOMIES, TRADE PROMOTION, GREATER STABILITY IN THE INTERNATIONAL FINANCIAL SYSTEM AND IN THE CURRENCY MARKETS.

III - POLICY AREAS:

1. MONETARY POLICY. MONETARY POLICY INDICATORS SHOULD BE MONETARY AGGREGATES, INTEREST RATES, AS WELL AS EXCHANGE RATES. THE CHOICE OF MONETARY POLICY INTERMEDIATE TARGETS CANNOT EXCLUDE INSTITUTIONAL CONSIDERATIONS. DEPENDING ON INTERNAL OR EXTERNAL, MONETARY OR REAL SHOCKS, GOVERNMENTS SHOULD LOOK AT VARIOUS INDICATORS TO ASSESS MONETARY POLICY STANCES.

2. FISCAL POLICY. NOT ONLY GOVERNMENT TRANSFER PAYMENTS ARE RELEVANT BUT BOTH SIDES OF THE GOVERNMENT BUDGET SHOULD BE CONSIDERED ACCORDING TO THEIR CYCLICAL AND STRUCTURAL COMPONENTS. MORE WEIGHT SHOULD BE ASSIGNED TO EFFORTS TO LIMIT STRUCTURAL IMBALANCES.

3. EXCHANGE RATE POLICY. IN THE SHORT-RUN THERE IS A ROLE FOR INTERVENTION TO SMOOTH ERRATIC FLUCTUATIONS. A LONGER-TERM INFLUENCE ON EXCHANGE RATES IS CERTAINLY PLAYED BY MONETARY POLICIES, BALANCE OF PAYMENTS TRENDS AND ADMINISTRATIVE CONTROLS.

4. EMPLOYMENT POLICIES. THEY SHOULD REFRAIN FROM RELYING HEAVILY ON WORK SHARING AND ENLARGING THE PUBLIC SECTOR WORK FORCE. THEY SHOULD CONCENTRATE MAINLY ON INCENTIVES FOR ENTERPRISES TO HIRE YOUNG PEOPLE.

5. INDUSTRIAL POLICY. COOPERATION ON TECHNOLOGY SHOULD BE INCREASED TO PROMOTE INNOVATIVE INDUSTRIAL RESTRUCTURING (FOLLOW-UP TO REPORT ON TECHNOLOGY, EMPLOYMENT, AND GROWTH COMMISSIONED AT VERSAILLES).

IV - ASSESSING PROGRESS ON CONVERGENCE OF ECONOMIC RESULTS:

IMPLEMENTATION CRITERIA AND PERFORMANCE YARDSTICKS SHOULD BE DEVELOPED AT APPROPRIATE LEVEL AND IMPROVED ON THE BASIS OF EXPERIENCE.

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M.S.
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are in for.

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WORKING OUTLINE ON TRADE, DEBT AND FINANCE: THE CRITICAL ROLE OF DEVELOPING COUNTRIES IN THE WORLD ECONOMY

I. OBJECTIVES

- A. PROMOTE GREATER OPENNESS OF TRADE AND FINANCIAL SYSTEMS,
- B. ASSURE ABILITY OF FINANCIAL SYSTEM TO MANAGE CURRENT DEBT PROBLEMS,
- C. PROVIDE BETTER COORDINATION OF TRADE AND FINANCIAL POLICIES AND
- D. IMPROVE ECONOMIC INTEGRATION BETWEEN DEVELOPED AND DEVELOPING COUNTRIES INCLUDING TECHNOLOGICAL TRANSFERS TO AND MAINTENANCE OF LEVEL OF INVESTMENTS IN LDC'S

II. IDENTIFICATION OF LINKAGES

- A. BETWEEN OPENNESS OF MARKETS AND SOLUTION OF DEBT PROBLEMS, INCLUDING LINKAGE BETWEEN FINANCING AND TRADE,
- B. BETWEEN AVAILABILITY OF FINANCING AND SUCCESS OF ECONOMIC ADJUSTMENT IN LDC'S, INCLUDING ABILITY TO MAINTAIN ESSENTIAL IMPORTS AND
- C. BETWEEN GROWTH IN DEVELOPED COUNTRIES AND GROWTH IN DEVELOPING COUNTRIES INCLUDING THE PROBLEM OF REAL INTEREST RATES LEVEL.

III. RECOMMENDATIONS FOR CONSIDERATION AT SUMMIT

A. TRADE

1. OPERATION OF CURRENT SYSTEM

AVOID NEW PROTECTIONIST ACTION: EFFORTS TO DISMANTLE EXISTING BARRIERS OVER TIME: REAFFIRM SUPPORT FOR OPEN TRADE SYSTEM:

2. NEW INITIATIVES

REINFORCE COMMITMENTS TO GATT WORK PROGRAM IN ORDER TO AVOID, IN THE COMMON INTEREST, CURRENT DISPUTES INCLUDING THOSE IN AGRICULTURAL SECTOR AND CONFLICTS OF JURISDICTION.

B. DEBT

NO MAJOR REFORM OR "MASTER PLAN" SHOULD BE CONSIDERED AT PRESENT: CONFIRM AGREEMENT ON STRATEGY WHICH SHOULD STRESS THE ASSURANCE OF A MINIMUM NET CREDIT FLOW TO LDC'S. PROPOSED ELEMENTS:

- 1. EFFECTIVE ADJUSTMENT IN BORROWING COUNTRIES: IMPORTANCE OF AVOIDING NEW TRADE BARRIERS.
- 2. AVAILABILITY OF FINANCING FROM OFFICIAL RESOURCES (IMF, MDB'S, IDA AND SIMILAR FACILITIES, BILATERAL AID PROGRAMS), INCLUDING THE POSSIBILITY OF INTEREST RATE SUBSIDIES ON NEW LOANS OR RE-SCHEDULED LDC'S DEBT.
- 3. AVAILABILITY OF SHORT-TERM TRANSITIONAL FINANCING FROM OFFICIAL CREDITORS (GOVERNMENTS AND CENTRAL BANKS).
- 4. ROLE OF COMMERCIAL BANKS SAFEGUARDING THEIR MAINLY SHORT-TERM FINANCING CAPACITY: EXPORT CREDIT PROGRAMS
- 5. SUSTAINED, NON-INFLATIONARY RECOVERY IN DEVELOPED COUNTRIES.
- 6. INDIRECT MEASURES TO ALLEVIATE INTEREST PAYMENTS BURDEN ON LDC'S: REVENUES STABILISATION PROGRAMS FOR COMMODITIES PRODUCERS (STABEX FORMULA).

C. COORDINATION

- 1. MORE FREQUENT MEETINGS OF TRADE MINISTERS OF SUMMIT COUNTRIES (I.E. QUADRILATERAL).
- 2. AD HOC MEETINGS OF TRADE AND FINANCE OFFICIALS AT ALL LEVELS.

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3. MORE FREQUENT GATT MINISTERIALS THAN IN PAST.

WORKING OUTLINE ON EAST-WEST ECONOMIC RELATIONS

(NOTE: THIS OUTLINE SHOULD BE DEVELOPED IN MAY AFTER COUNTRIES HAVE REVIEWED WHAT HAS BEEN ACCOMPLISHED IN THE VARIOUS STUDIES/WORK PROGRAMS CURRENTLY UNDERWAY. IN GENERAL, THE OUTLINE WOULD ADDRESS THE FOLLOWING POINTS).

I. AGREED GUIDELINES ON OUR APPROACH TO EAST-WEST ECONOMIC RELATIONS

II. REVIEW OF ARRANGEMENTS PREVIOUSLY REACHED. (RECAPITULATE UNDERSTANDINGS RESULTING FROM STUDIES NOW UNDER WAY IN THE DIFFERENT FORA).

III. RECOMMENDATIONS FOR FURTHER WORK.

(ASSESSED AS A FUNCTION OF THE REVIEW IN III, DETERMINE WHAT STEPS HEADS OF STATE/GOVERNMENT MIGHT RECOMMEND TO VARIOUS INSTITUTIONS TO ENCOURAGE THE COMPLETIONS OF STUDIES AND IF NECESSARY THE FOLLOW-UP TO THE WORK ALREADY DONE.

FCO PSE PASS SAVING ADDRESSEES

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