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**PRIME MINISTER'S
PERSONAL MESSAGE**
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PRIME MINISTER
CANBERRA

21 May 1982

My Dear Reagan

You will know from your High Commission in Canberra that during my visit to Washington earlier this week I intended to put to President Reagan a set of proposals designed to reduce impediments to free international trade through a standstill on and progressive reduction of all forms of protection.

I attach a copy of the Aide Memoire which I left with President Reagan on 17 May setting out in detail the proposals I have in mind and my thinking on them. I also described the proposals in a speech which I gave to the Foreign Policy Association in New York on 18 May.

In commending the proposals to President Reagan, I said that I thought they represented the kind of direction which the Summit participants could give when they met in Versailles next month.

The Versailles and Bonn Summits come at a time of massive economic problems in Western economies, problems for which there is at this time not even an agreed approach to a solution. There are very real risks of social disruption stemming from the degree of industrial dislocation and consequent unemployment that many countries are now experiencing. Against this sombre background the NATO Alliance is facing the challenge of restoring stability to the East/West relationship. In my view, these issues are interlinked, and the two Summits present an important opportunity to restore a genuine Western Alliance consensus on basic questions of economic policy and policies towards the Soviet Union.

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Lack of growth and unemployment are common to most Western economies at this time, and most governments are implementing appropriately responsible and restrained fiscal and monetary policies in an endeavour to contain inflation. There is also a nexus between protectionism and inflation, in the sense that protectionist measures - whether they be restrictions against imports or other financial measures supporting the production of export goods - inhibit the fight against inflation, increase public spending, hinder trade flows and worsen prospects for overall economic recovery. I believe a new approach is needed to free trade flows and to discourage beggar-thy-neighbour policies which - if present trends are permitted to develop - could pose a real threat to Western economic strength and Western political unity.

The reason for our emphasis on export incentives and subsidies is that competitive export incentives, to our way of thinking, represent the greatest waste of economic resources. A diminution and eventual abolition of them would mean the release of those resources for productive purposes - replacing obsolescent technology, lowering taxes to stimulate economic activity. And it is the countries which at present spend the most on these export supports which would benefit the most from their abolition.

The Versailles Summit, I believe, is an opportunity for Western political leaders to set a new and constructive direction, both generally and with particular relevance to the GATT Ministerial Meeting later in the year.

Australia's proposal is that the participants in the Versailles Summit should call for international agreement:

- (1) on a standstill on increases in protection and on the introduction of new protectionist measures, particularly in non-tariff forms;
- (2) on a commitment to significant and progressively implemented reductions in all forms of protection, in accordance with a set formula to be determined through the mechanisms of the GATT;
- (3) that there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years.

No one country can secure international agreement to implement such a program, but if the Summit participants could agree on these three ideas in principle, and give a lead, other countries would follow. Australia would be the first among

them. For a country not to feel able to agree to at least the first of the three propositions would simply mean that it was reserving for itself the right to increase its levels of protection in the future.

I do not underestimate the difficulty of agreeing on and later implementing such proposals. But if they or something like them are not given a chance, prospects for the international economy are bleak indeed. As things stand even the most optimistic estimates for economic recovery in the United States do not indicate a return to sustained strong growth.

I should emphasise that I am not proposing a long drawn-out process like another round of Multilateral Trade Negotiations, but rather something that is broad-brush but capable of having significant effects in the short-term. Essentially, I envisage the Summit setting the direction, and the GATT Ministerial meeting in November negotiating details and determining appropriate formulas.

At the end of World War II the Marshall Plan and the creation of the Bretton Woods institutions transformed a world full of doubt and fear of the future and of what peace would bring. Looking at the present malaise of the world's economies, I think something of comparable sweep and boldness is needed now. I firmly believe that our proposals represent one possible way - indeed perhaps the only possible way - in which a much-needed stimulus might be given without at the same time fuelling inflationary pressures and abandoning responsible policies of restraint.

Indeed, in many ways what I have put forward would be the international complement to the sort of policy which you - and President Reagan - have been so courageously applying domestically.

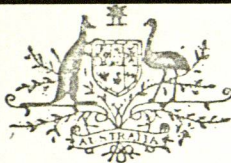
I hope our proposals will strike you in that light, and that should they be considered at the Summit, as I understand from my discussions with President Reagan they may be, you will feel able to view them sympathetically.

I have asked Tony Street, who will be in London in a few days time, to see if you are available to talk to him about these and other matters. I hope you will be able to see him. I can tell you that both he and I in our talks in Washington stressed the importance of support for Britain in the present crisis, and that the response we got was quick and warm.

*With all good
wishes*

The Right Honourable Margaret Thatcher,
Prime Minister,
House of Commons,
LONDON ENGLAND

Harold Jones



AIDE MEMOIRE

AUSTRALIAN INITIATIVES ON STIMULATING WORLD TRADE AND ECONOMIC RECOVERY

Background

There has been global recession for the best part of two years and general unsatisfactory economic performance over the past decade. There may be some hope for recovery as 1982 progresses but any recovery, however, is likely to be fragile unless we address factors inhibiting trade growth.

In particular, protectionist measures, particularly non-tariff measures (NTMs) are now more prevalent than ever. International restraint on trade - protectionism in its broadest sense, that is protection against imports and Government financial assistance to industry to support prices of goods and services or in support of the production, export, finance or distribution of goods and services - make it more difficult to restrain inflation and are a strong impediment to efficient and sustainable growth. Undoubtedly these developments have contributed stagnation in world trade.

In considering economic prospects and policy, attention has tended to focus on the interaction of, and effect of, policies designed to reduce inflation and the related questions of interest rates, exchange rates, wages and unemployment.

The control of inflation is of fundamental significance to the restoration of sustained growth through reducing uncertainty and restoring business and consumer confidence.

Not all the available weapons, however, are being used to accelerate the defeat of inflation and the resumption of growth. Indeed some policies are being pursued that have the opposite effect.

The Case for the Initiatives

The Australian Government believes that, both globally and in individual domestic economies, there is no alternative to the continued battle against inflation. The armoury in this struggle would be most usefully supplemented, we believe, by the initiatives outlined below. Their implementation would assist in the expansion of world trade and output, put additional downward pressure on inflation, and, among other things, help contain public expenditure. Without some such new impetus economic recovery may be disappointing. We must make the most of the progress which is being achieved in bringing down rates of inflation.

The proposals focus on the reduction of impediments to freer international trade. Their implementation would ease tensions in the global economy that flow from each country attempting to

achieve economic gain at the expense of others. Above all, the proposals are pragmatic, calling for a standstill on total protection levels and then a programme of significant though staged reductions. Under existing arrangements, efficient exporters are precluded from access and face unfair subsidised competition in third markets. They are forced to bear the cost of others' unwillingness to adjust. Even more importantly the maintenance of various support arrangements imposes a cost in terms of inflationary pressures which must be borne by the entire international community.

For the proposals to be fully effective, they need to receive also the support of developing countries (who provide the major outlets for export growth in industrial products and who were treated inequitably in the Multilateral Trade Negotiations (MTN)).

The Proposals

Australia proposes that, in the interests of stimulating world economic activity while contributing to diminishing inflationary pressures, the participants in the Versailles Economic Summit in June should call for international agreement:

- (i) on a standstill on increases in protection and on the introduction of new protectionist measures, particularly in non-tariff forms;

- (ii) on a commitment to significant and progressively implemented reductions in all forms of protection, in accordance with a set formula to be determined through the mechanisms of the GATT;

- (iii) that there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years.

WASHINGTON

17 May 1982