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TO IMMEDIATE FCO

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AND TO BRASILIA (FOR LADY YOUNG)

INFO UKDEL OECD, UKMIS NEW YORK, UKMIS GENEVA, DELHI, BONN,
PARIS, ROME, TOKYO, OTTAWA.

MEETINGS OF THE INTERIM AND DEVELOPMENT COMMITTEES
HELD IN WASHINGTON ON APRIL 17-19, 1985.

SUMMARY.

1. THE CHANCELLOR OF THE EXCHEQUER AND THE GOVERNOR OF THE BANK OF ENGLAND ATTENDED THE MEETINGS. THE MEETING'S NEW INFORMAL FORMAT MADE FOR BETTER DEBATE. CONCERN ABOUT LOWER UNITED STATES GROWTH DID NOT (REPEAT NOT) PROMPT CALLS FOR OTHER COUNTRIES' REFLECTION. CASE-BY-CASE APPROACH TO DEBT GENERALLY ENDORSED. DEVELOPING COUNTRIES IN REALISTIC AND PRACTICAL MOOD. LITTLE PRESSURE FOR A TASK FORCE ON DEBT OR FOR POLITICAL DIALOGUE. DIFFICULT DISCUSSIONS ON TRADE WITH PERHAPS SOME HARDENING OF G24 POSITIONS AND INDIAN INTRANSIGENCE LEADING TO UNSATISFACTORY REFERENCE TO TRADE LIBERALISATION IN COMMUNIQUE. NO SPECIAL FOLLOW-UP MEETINGS CONTEMPLATED.

DETAIL

FORMAT OF MEETINGS.

2. THE COMMITTEES MET FOR THE FIRST TIME WITH SHORTER PLENARIES AND WITH RESTRICTED INFORMAL SESSIONS. THIS NEW FORMAT WAS A QUALIFIED SUCCESS, WITH FINANCE MINISTERS EFFECTIVELY DOUBLING THEIR PRODUCTIVITY BY COMPLETING IN THE MORNING PLENARY SESSIONS WHAT HITHERTO HAD TAKEN A COMPLETE DAY. THE INFORMAL RESTRICTED SESSIONS DID NOT AVOID SET-PIECE INTERVENTIONS, BUT PROMPTED SOME LIMITED DEBATE AND FRANKER SPEAKING THAN USUAL.

THE WORLD ECONOMY

3. THERE WAS GENERAL AGREEMENT THAT THERE HAD BEEN PROGRESS IN RESTORING STABILITY AND GROWTH TO THE WORLD ECONOMY AFTER THE RECESSION OF THE EARLY 1980S AND THE TURBULENCE OF THE DEBT CRISIS. THE PUBLICATION DURING THE MEETINGS OF THE UNEXPECTEDLY LOW US GROWTH FIGURES FOR THE FIRST QUARTER --1.3 PER CENT AT AN ANNUAL RATE--REMINDED MINISTERS THAT SUSTAINED GROWTH COULD NOT BE TAKEN FOR GRANTED. BUT THE PROSPECT OF LOWER US GROWTH DID NOT BRING FORTH A CRY FOR FISCAL REFLECTION IN OTHER COUNTRIES. RATHER, THE EMPHASIS WAS ON THE NEED FOR THE EUROPEANS TO IMPROVE THE EFFICIENCY OF THEIR ECONOMIES, FOR THE US TO REDOUBLE ITS EFFORTS TO REDUCE ITS BUDGET DEFICIT, AND FOR THE JAPANESE, AND OTHERS, TO OPEN UP MARKETS. THERE WAS HARDLY ANY DISCUSSION OF THE US PROPOSAL FOR A POSSIBLE INTERNATIONAL MONETARY CONFERENCE. THE INTERIM COMMITTEE AGREED TO REVIEW, AT ITS NEXT MEETING IN SEOUL, IMPROVEMENTS OF THE INTERNATIONAL MONETARY SYSTEM CURRENTLY UNDER STUDY.

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4. THE MINISTERS, FROM BOTH DEVELOPED AND DEVELOPING COUNTRIES, ACKNOWLEDGED THAT DEBT PROBLEMS WOULD CAUSE TROUBLE FOR A LONG TIME TO COME. SOME COUNTRIES HAD ACHIEVED CONSIDERABLE PROGRESS THOUGH AT A POLITICAL AND SOCIAL COST. THERE WERE MANY TRIBUTES TO THE SUCCESS OF MEXICO AND TO HER FINANCE MINISTER SILVA HERTRIC. THE DIFFICULTIES OF THE IMF PROGRAMS IN BRAZIL AND ARGENTINA, AND IN OTHER COUNTRIES, AS WELL AS THE CONTINUED PROBLEMS OF SUB-SAHARAN AFRICA--ON WHOSE EARLY RESOLUTION NO ONE WAS HOPEFUL--PROVIDED SOMBRE BACKGROUND TO THE DISCUSSION.

5. REPRESENTATIVES OF MANY DEBTOR COUNTRIES EMPHASISED, IN A WAY NOT DONE AT PREVIOUS MEETINGS, THAT INDIVIDUAL DEBTOR COUNTRIES HAD THE MAIN RESPONSIBILITY FOR RESOLVING THEIR OWN PROBLEMS, BUT CLEARLY THE SOCIAL AND POLITICAL COSTS INVOLVED WOULD BE MADE MORE TOLERABLE BY EXTRA RESOURCES FROM ABROAD. THOUGH THERE WAS THE RITUAL SUPPORT FOR THE 70-PARAGRAPH LONG G24 COMMUNIQUE, MOST LATIN AMERICAN COUNTRIES DID NOT PUSH WITH ANY ENTHUSIASM FOR THE CARTAGENA CONSENSUS. THE FINANCE MINISTERS FROM ECUADOR AND MEXICO, AND THE CENTRAL BANK GOVERNOR FROM BRAZIL, IN IMPRESSIVE INTERVENTIONS, ALL SPOKE WITH MODERATION. BUT THEY CAUTIONED THAT THE IMPOSITION OF TOO HARSH AND FAST ADJUSTMENT WOULD BREAK THE SOCIAL AND POLITICAL FABRIC, AND DAMAGE DEVELOPING DEMOCRACIES IN LATIN AMERICA. THERE WAS NO (REPEAT NO) SUPPORT AMONG INDUSTRIALISED COUNTRIES FOR PROPOSALS FOR A TASK FORCE OR FOR "POLITICAL DIALOGUE".

6. MINISTERS, FROM BOTH DEVELOPED AND DEVELOPING COUNTRIES, ENDORSED THE "CASE-BY-CASE" APPROACH TO THE RESOLUTION OF THE DEBT CRISIS. THERE WAS NO SUPPORT FOR "GLOBAL SOLUTIONS" WHICH, AS THE CHANCELLOR OF THE EXCHEQUER AND THE US SECRETARY OF THE TREASURY POINTED OUT IN INFORM SESSION, WOULD POSE UNACCEPTABLE BURDENS ON TAXPAYERS IN THE DEVELOPED COUNTRIES. THERE WAS CONSENSUS, HOWEVER, THAT THE CASE-BY-CASE APPROACH WOULD HAVE TO EVOLVE, IN A PRACTICAL WAY, TO MEET THE NEEDS OF PARTICULAR DEBTORS, E.G. THROUGH MULTIYEAR RESCHEDULING ARRANGEMENTS (ON WHICH CAUTIOUS WORDS WERE INCLUDED WITHIN THE INTERIM COMMITTEE COMMUNIQUE), AND EARLIER EXTENSION OF EXPORT CREDIT COVER. DEVELOPING COUNTRIES WERE URGED TO REDUCE BARRIERS TO PRIVATE DIRECT INVESTMENT, A TASK WHICH, SAID THE CHANCELLOR, WAS AS IMPORTANT TO THE DEVELOPMENT OF A HEALTHY WORLD ECONOMY AS THE REDUCTION IN TRADE BARRIERS BY DEVELOPED COUNTRIES.

TRADE

7. THE DISCUSSION WAS NOTABLE ESSENTIALLY FOR A STANDOFF BETWEEN THE AMERICANS AND INDIANS, AS SELF-APPOINTED SPOKESMEN FOR THE DEVELOPING WORLD, ON HOW TO MOVE FORWARD ON MTNS. THIS MAY HAVE BETOKENED SOME HARDENING IN THE LDC POSITION. NO NEW POINTS WERE ADVANCE BY EITHER SIDE. THE EUROPEAN COMMUNITY PLAYED ALMOST NO ROLE, APART FROM A VERY BRIEF ITALIAN INTERVENTION AT THE OUTSET. THERE WAS A LONG HAGGLE ABOUT THE DRAFTING OF INNOCUOUS WORDS IN THE COMMUNIQUE.

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CHANCELLOR OF THE EXCHEQUER'S INTERVENTIONS

8. IN HIS INTERVENTIONS AT THE INTERIM COMMITTEE, THE CHANCELLOR NOTED THAT, AFTER THE ILL-FOUNDED EXPANSION OF THE 1970S, THERE HAD BEEN A NEED FOR PAINFUL ADJUSTMENT IN MANY DEVELOPING COUNTRIES. SIGNIFICANT PROGRESS HAD BEEN MADE BUT FURTHER EFFORTS WERE NEEDED, FOR EXAMPLE TO ENCOURAGE A HIGHER LEVEL OF DOMESTIC SAVING AND TO ATTRACT FOREIGN SAVING IN THE FORM OF INWARD DIRECT AND PORTFOLIO INVESTMENT. PROBLEMS OF STRUCTURAL ADJUSTMENT WERE NOT CONFINED TO THE DEVELOPING COUNTRIES: THERE WERE RIGIDITIES AND INEFFICIENCIES IN INDUSTRIAL COUNTRIES TOO, AND THESE, AS WITH THE RECENT COAL STRIKE IN THE UK, HAD TO BE TACKLED WITH DETERMINATION. IT WAS CRUCIAL TO AVOID A FURTHER MOVE TOWARDS PROTECTIONISM. IN THE IMMEDIATE FUTURE, THERE MIGHT BE SOME SLOW-DOWN IN WORLD GROWTH AS ADJUSTMENT CONTINUED AND THE US FISCAL POSITION WAS BROUGHT UNDER CONTROL. FISCAL STIMULATION IN OTHER COUNTRIES WAS NOT THE ANSWER. THE RESPONSE SHOULD BE TO REDUCE FINANCIAL IMBALANCES, AND HERE THE UNITED STATES HAD A SPECIAL RESPONSIBILITY FOR ITS FISCAL DEFICIT, TO TACKLE STRUCTURAL RIGIDITIES AND TO REASSERT THE OPENNESS OF INTERNATIONAL TRADE.

9. HE TOLD THE DEVELOPMENT COMMITTEE THAT OBSTACLES TO INTERNATIONAL CAPITAL FLOWS NEEDED TO BE REDUCED. DIRECT AND PORTFOLIO INVESTMENT HAD A LARGER ROLE TO PLAY. IN THAT CONTEXT, A MULTILATERAL INVESTMENT GUARANTEE AGENCY COULD BE HELPFUL. THE CHANCELLOR ENDORSED THE IDEAS ON EXPORT CREDIT COVER SET OUT IN THE PRESIDENT'S REPORT, NOTING ESPECIALLY THE NEED TO IDENTIFY WORTHWILE AND REMUNERATIVE PROJECTS AND THE WORLD BANK'S POTENTIAL CONTRIBUTION IN THIS PROCESS. IT WAS NOT REALISTIC TO LOOK FOR ANY SUBSTANTIAL EXPANSION OF OFFICIAL DEVELOPMENT ASSISTANCE: THE RESOURCES WHICH WERE AVAILABLE SHOULD BE USED EFFICIENTLY AND FOCUSED ON THE AREAS OF GREATEST NEED. UNLESS POSITIVE MOVES WERE MADE TOWARDS TRADE LIBERALISATION, THERE WAS LIKELY TO BE AN INCREASING SLIDE INTO PROTECTIONISM. ON THE ROLE OF THE WORLD BANK, HE INDICATED THE UK'S WILLINGNESS TO CONSIDER WITH OTHER THE ISSUE OF GENERAL CAPITAL INCREASE, RECOGNISING HOWEVER THAT IMPORTANT QUESTIONS ABOUT ITS SIZE, PAID-IN ELEMENT, ETC REMAINED TO BE RESOLVED. HE WELCOMED THE SPECIAL FACILITY FOR AFRICA.

BANK AND FUND

10. THERE WAS GENERAL ENDORSEMENT OF THE WORK OF THE BANK AND FUND. THE UNITED STATES, SUPPORTED BY OURSELVES, THE WEST GERMANS AND JAPANESE OPPOSED AN ALLOCATION OF SDRS. THE FUND EXECUTIVE BOARD IS TO EXAMINE THE USE OF IMF TRUST FUND PROCEEDS AND THE STRENGTHENING OF FUND SURVEILLANCE. WEST GERMAN AND LATIN AMERICAN DOUBTS TONED DOWN REFERENCES IN THE COMMUNIQUE TO THE MULTILATERAL INVESTMENT GUARANTEE AGENCY TO NO MORE THAN QUOTE NOTED UNQUOTE. WE AND THE UNITED STATES JOINED IN PREVENTING THE FRENCH INSERTING TOO FORTHCOMING WORDS INTO THE DEVELOPMENT COMMITTEE COMMUNIQUE ABOUT A GENERAL CAPITAL INCREASE FOR THE WORLD BANK.

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ASSESSMENT

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11. SO ALL IN ALL SOME REALISTIC DISCUSSION WHICH DID NOT HIDE THE MAGNITUDE OF THE DIFFICULTIES STILL FACING THE WORLD ECONOMY, ESPECIALLY ON THE DEBT FRONT. BUT GENERAL RECOGNITION, AT LEAST AMONG MOST PARTICIPANTS PRESENT AT THESE MEETINGS, THAT EXISTING APPROACHES, WITH APPROPRIATE DEVELOPMENT, OFFER THE ONLY VIABLE WAY OF MEETING THESE DIFFICULTIES.

12. THE COMMITTEE'S COMMUNIQUE ARE IN GIFTS.

13. FCO PLEASE ADVANCE TO PS/CHANCELLOR, LITTLER AND LAVELLE (TREASURY), PS/GOVERNOR AND LOEHNIS (BANK OF ENGLAND), TICKELL (ODA), BRAITHWAITE AND TAIT (ERD).

WICKS

MONETARY
ERD

(ADVANCED AS REQUESTED)