

GRS 750

UNCLASSIFIED

FM UKMIS GENEVA 221435Z MAR 83

TO PRIORITY FCO

TELNO 114 OF 22 MARCH 1983

INFO WASHINGTON, UKDEL OECD, UKDEL IMF/IBRD, UKREP BRUSSELS.
INFO OTHER EC POSTS, UKMIS NEW YORK

PREPARATIONS FOR THE WILLIAMSBURG SUMMIT

1. THE US DEPUTY SECRETARY OF STATE, KENNETH DAM, GAVE AN ON THE RECORD ADDRESS HERE YESTERDAY (21 MARCH) AT THE BEGINING OF A TOUR MAINLY CONCERNED WITH DISARMAMENT ISSUES WHICH WILL INCLUDE OSLO, COPENHAGAN, BONN AND BUDAPEST. IT CONCENTRATED ON THE NEED FOR THE SUMMIT PARTNERS TO FORGE A STRATEGY FOR NON-INFLATIONARY GROWTH. (FULL TEXT BY TODAYS BAG TO THOMAS (AUS, FCO) GRAY (DOT) UNWIN (TREASURY) AND GREGSON (CABINET OFFICE)).

2. DAM SAID THAT THE SIGNS OF ECONOMIC REVIVAL SHOULD BE EVEN MORE OBVIOUS BY THE END OF MAY. WILLIAMSBURG WOULD DIFFER IN TONE AND CONTENT FROM OTTAWA AND VERSAILLES. IT WOULD BE FLEXIBLE, INFORMAL AND EMPHASISE POLICIES TO PROMOTE GROWTH 'WITHOUT REIGNITING INFLATION'.

3. AFTER ANALYSING THE CAUSES OF THE RECESSION IN STANDARD TERMS HE ARGUED THAT THE STRATEGY OF THE INDUSTRIALISED COUNTRIES SHOULD INVOLVE:

(A) COMBATTING PROTECTIONISM.

ALTHOUGH THE GATT MINISTERIAL HAD FAILED TO ACCOMPLISH ALL THAT WAS NECESSARY IT HAD KEPT THE GATT SYSTEM TOGETHER AND MOVING SLOWLY BUT POSITIVELY. NOW THE MINISTERIAL OPEN TRADE PLEDGE NEEDED TO BE TRANSLATED INTO CONCRETE MEASURES. PROTECTIONIST MEASURES SUCH AS UK AND FRENCH VOLUNTARY RESTRAINT AGREEMENTS WITH JAPAN ON AUTOMOBILES THREATENED TO CHOK OFF RECOVERY. PRESIDENT REAGAN HAD PLEDGED THE US TO OPEN TRADE. BUT THE U S WOULD MEET OTHER NATIONS' 'TRADE DISTORTING PRACTICES' (SUCH AS CAP SUBSIDIES), PARTICULARLY WHEN THEY AFFECTED AREAS SUCH AS AGRICULTURE AND SERVICES WHERE THE US HAD A COMPARATIVE ADVANTAGE, THROUGH SERIOUS NEGOTIATION AND SELECTIVE ACTION (EG WHEAT FLOUR TO EGYPT).

(B) STRENGTHENING THE INTERNATIONAL FINANCIAL SYSTEM.

IMPORTS CUTS COULD ONLY FREE SO MUCH FOREIGN CURRENCY IN DEBTOR COUNTRIES. EXPORT GROWTH WAS ESSENTIAL. A STRATEGY OF BRIDGING FINANCE PLUS ADJUSTMENT PROGRAMMES LINKED TO IMF AND COMMERCIAL LENDING HAD BEEN SUCCESSFUL (BRAZIL, MEXICO). BUT PRIVATE LENDING IN THE SECOND HALF OF 1982 SHOWED A PRECIPITOUS DROP. THERE WAS A NEED FOR EXTENDING NEW MONEY TO LDCS, BOTH FOR DEBT SERVICE AND TO ENCOURAGE SOUND POLICIES.

THE

THE INTERNATIONAL ECONOMY WAS TOO VULNERABLE TO ALLOW A CONTINUED DECLINE IN LENDING TO THE THIRD WORLD; DAM WAS CONFIDENT CONGRESS WOULD RECOGNISE THE JUSTIFICATION FOR THE IMF QUOTA INCREASE.

(C) IMPROVING THE MONETARY SYSTEM.

FINANCIAL FLOWS WERE HAVING A POWERFUL EFFECT ON EXCHANGE RATE MOVEMENTS. THE APPRECIATION OF THE DOLLAR WOULD INCREASE THE US TRADE DEFICIT. VOLATILITY OF EXCHANGE RATES WAS ANOTHER COMPLEX PROBLEM: THE US BELIEVED "THAT A CONVERGENCE OF UNDERLYING ECONOMIC POLICIES WAS NECESSARY TO ACHIEVE GREATER EXCHANGE RATE STABILITY".

HE REFERRED TO THE INITIATIVE ON MULTILATERAL SURVEILLANCE TAKEN AT VERSAILLES.

(D) DEVELOPING A UNIFIED ALLIED APPROACH TO EAST-WEST ECONOMIC RELATIONS.

THE ECONOMIC MILITARY AND POLITICAL AIMS OF THE WESTERN DEMOCRACIES WERE INTER RELATED (A THEME FREQUENTLY UNDERLINED IN THE SPEECH). WILLIAMSBURG SHOULD SEE THE DEVELOPMENT OF POLICIES BASED UPON A NEW CONSENSUS.

4. IN RESPONSE TO QUESTIONS, DAM SAID THAT PRESS REPORTS OF NEW U S INITIATIVES ON GATT REFLECTED ONLY INTERNAL EXPERT LEVEL DISCUSSIONS WHICH HAD NOT YET MATURED. THESE DISCUSSIONS IMPLIED A RECOGNITION THAT GATT WAS NOT MOVING FAST ENOUGH, AND THAT AREAS SUCH AS SERVICES, AGRICULTURE AND FINANCE AND TRADE RELATED INVESTMENT WERE NOT ADEQUATELY COVERED. BUT HE REITERATED THE ADMINISTRATION'S COMMITMENT TO THE OPEN TRADING SYSTEM. PRESIDENT REAGAN WOULD USE HIS FULL LEVERAGE TO COUNTER PROTECTIONIST PRESSURES FROM CONGRESS.

5. DAM ALSO REAFFIRMED THE US COMMITMENT TO NEGOTIATE DIFFERENCES WITH THE COMMUNITY, MEETING "UNREASON WITH REASON" AND SAID THAT THE TALKS IN WASHINGTON LAST WEEK OFFERED HOPE FOR PROGRESS.

6. SEE MY IFT.
FCO PLEASE PASS SAVINGS
MARSHALL

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