NEW TRADE NEGOTIATIONS

I. ISSUE

Although Summit countries may not be ready to launch a new round of trade negotiations now, we want to promote an interest in examining ways of liberalizing trade, with special emphasis on trade with LDCs in negotiations in a few years.

II. ESSENTIAL FACTS

The expansion of world trade and the health of the international financial system require growth in LDC exports and increased demand by LDCs for the goods and services of developed countries and other LDCs. Although some LDCs may need to limit import growth temporarily as part of their balance of payments adjustment efforts, the success of those adjustment efforts and the sustained recovery of the world economy depend upon the further liberalization of this trade.

In the GATT Ministerial, the US and Switzerland proposed a special North/South round aimed at MFN liberalization by LDCs in return for preferential access to developed country markets in addition to existing GSP. Most of the other developed nations, with the exception of the Germans, Dutch, and Swedes, were reluctant to endorse this until the strength of Western economic recovery was more apparent. The US task is to keep Summit countries' attention focused on the need to keep their markets open to LDC exports and to launch a process at the appropriate time for developed countries and LDCs to exchange liberalization commitments.

III. KEY POINTS

Criticism: How can we expect high-debt LDCs to make mutual trade concessions in the foreseeable future?

Response: Even if negotiations were launched today, it would be several years before LDC concessions would be implemented. Concessions from high-debt LDCs would have to be consistent with their balance of payment situations.

Criticism: How does the US GSP renewal proposal fit with this line of thinking?

Response: Our proposal for GSP renewal is an important step in liberalizing N/S trade. It offers advanced LDCs an opportunity to negotiate for a greater degree of preferential access than they enjoy under the existing system. The mid-level and least developed beneficiaries will keep existing or expanded unilateral GSP benefits. Since GSP is limited in product coverage, duration and extent of preferences, long-term mutual liberalization will require broader multilateral efforts.

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HIGH TECHNOLOGY TRADE

I. ISSUE

Today almost all nations view high technology industries as critical to their national security. A broad range of interventionist policy instruments has been adopted by many foreign governments to protect and foster indigenous high-technology sectors. We are concerned that these policies, unrestrained, may splinter global markets and reduce the pace of innovation.

II. ESSENTIAL FACTS

Growth in high technology world trade has been rapid, increasing from $25 billion to $500 billion in two decades. However, the US relative share of this trade has been declining.

At Versailles, the French-led initiative on high technology, which endorsed government intervention, was diverted to the preparation of a report on Technology Growth and Employment which recommends, among other things, that "an open and competitive trading system...must be strengthened." You have commended President Mitterrand on the completion of this report.

In May 1982, the US succeeded in launching a study of high technology problems and related governmental policies in the OECD. The US proposed a study of the special trade problems of the high technology sector at the November Ministerial level meeting of the parties to the GATT, which was approved in April.

Multilateralism, the foundation upon which US trade policy is constructed, and the GATT are the best hopes for fostering and maintaining an open and equitable trading system. The support of ongoing work programs in the GATT and the OECD directed toward understanding and addressing the problems of the future in trade in high technology goods and of potentially conflicting government industrial policies can be beneficial to all.

III. KEY POINTS

Criticism: The US is ahead in high technology due to the DOD and large internal market, while we must support this critical area by direct government action to catch up.

Response: The US admits that a robust high-tech sector is a matter of priority to all; however, policies of unlimited governmental intervention will not result in healthy international competition among private firms, but inter-government rivalry that will fractionate markets, slow the development of new technologies and their international application, increase internal costs and be destructive of the open trading system.

TECHNOLOGY, EMPLOYMENT AND ECONOMIC GROWTH

I. ISSUE

How the Summit should endorse the report on Technology, Employment and Growth commissioned at Versailles.

II. ESSENTIAL FACTS

In response to Mitterrand's initiative at Versailles, a Working Group was set up to study how international cooperation in science and technology could stimulate economic growth and employment. The group produced a report describing the historical contributions of technology to growth, the future potential for stimulating sustained economic recovery, and suggested policies to further international cooperation in 19 areas. The US is lead country in 6 projects, among which are solar system exploration, nuclear fusion and high energy technology, and endorses our efforts in lowering trade barriers and guarding against transfer of sensitive technologies to Eastern Bloc nations.

The Group's report was endorsed by all Heads and published in March. There have been meetings to get the projects underway and and the Working Group met again in early May to review progress on them. Their final report is attached. There is agreement that the Summit should take note of the report and endorse implementation of the technology projects. There is further agreement that there is no need to report to future summits. The French may push for a higher profile treatment of the report, but we recommend it simply be acknowledged as supportive of the economic and trade objectives of the Summit.

III. KEY POINTS

-- We welcome the study and the initiation of cooperation on the projects which have been developed from it.

-- It remains important to stress the critical importance of removing barriers to ensure open markets for trade in high technology products, while guarding against transfer of sensitive technology to our adversaries.

-- We recommend that in our communique we acknowledge the report and endorse its collaborative projects.

RESULTS OF THE VERSAILLES SUMMIT WORKING GROUP ON TECHNOLOGY, GROWTH AND EMPLOYMENT MEETING OF MAY 2-3, 1983

The Working group reviewed the reactions to its report which was published on March 25, 1983. Heads of State and Government and Ministries welcomed this report on technology, growth and employment as a useful, additional dimension to the continuing Summit process. Reactions by Parliaments, the public, the scientific community and the press have been generally positive.

The Group also reviewed the progress of the 18 projects in the Report. Some of these have already forged ahead strongly; others are still in the detailed planning stages. In all cases further meetings of interested participants have been, or are being, planned.

The Working Group also considered how its report could be discussed at the Williamsburg Summit and how to ensure continued implementation of the projects. Following are its recommendations and suggestions to the Sherpas of the Summit countries:

At the Summit: In the context of their overall economic objectives, the heads of State and Government could take note of the Working Group's activity and report, and endorse implementation of the projects and the need for enhanced international cooperation. They could also note the importance of technology to developing countries as well as industrialized nations, and provide for their access to the projects following their initial implementation among the Summit countries.

Follow-up after the Williamsburg Summit: Heads of State and Government could recommend that the host country for future summits organize informal meetings of this group to review progress on the projects for cooperation, encourage their implementation, and ensure continued policy-level oversight and coordination as work proceeds.

SERVICES

I. ISSUE

We will want to discuss the development of international rules for trade in services.

II. ESSENTIAL FACTS

The service sectors (banking, insurance, telecommunications, transportation) offer some of the most dynamic export opportunities among the OECD countries, but a variety of foreign barriers limits exports of services.

Practically all of the 20 million new jobs created in the US in the past 10 years have been in the service sectors. Net job creation during the same period in Europe has been zero. The Europeans have not emphasized services and have failed to develop any meaningful export base in these areas.

Services are not covered by the GATT. The US is urging its trading partners to discuss ways to establish a set of international disciplines that will liberalize trade. France, Italy and the EC oppose these efforts because they believe that resolving traditional trade problems of manufactures and agriculture should have priority.

III. KEY POINTS

Criticism: Efforts at liberalization of services would assist the US but have less relevance for most other countries.

Response: Services are basically strong in all the developed countries because of their knowledge base. Every developed country stands to gain from liberalization because of the significant new employment it would generate and the close relationship to overall competitiveness.

Criticism: Services may be a good idea for the future, but we must first resolve existing problems in manufactures and agriculture before we tackle such a complicated problem.

Response: The services issue will require years of discussion and negotiation which is why work must begin now. We do not have to sacrifice our efforts in the goods area to examine services problems; they can operate in parallel.

AGRICULTURE

I. ISSUE

The US should reinforce efforts to obtain the European Community's (EC) commitment to limit use of agricultural export subsidies in its Common Agricultural Policy (CAP) and to negotiate a strengthening of the GATT rules on agricultural trade.

II. ESSENTIAL FACTS

The CAP guarantees high prices to farmers, encouraging excess production. Export prices can be lowered to world levels only by subsidies. Subsidies of this size cause major distortions in world trade and disadvantage competitive exporters (e.g. the US). The EC is now second to the US in farm exports.

Because the CAP depends on export subsidies to dispose of its surplus, the EC has resisted efforts to tighten agricultural trade rules. To counter these subsidies in third markets, the US seeks to limit the use of export subsidies by changing world trade rules, retaliates with actions such as subsidized flour sales to Egypt, and attempts bilateral dialogue with the EC.

The US has taken unprecedented steps to curb production and has endeavored to act responsibly in the international area. Congressional concern about EC subsidies may result in a legislatively-mandated US countersubsidy program, which could damage our bilateral relationship and the world trading system.

We do not challenge the CAP, a cornerstone of European unity, and we recognize the political difficulties for the EC in this area. But the destructive potential of an escalating trans-Atlantic dispute over agricultural trade is great and the time we have to deal constructively with the problem is short.

III. KEY POINTS

Criticism: Current GATT rules permit export subsidies for primary agricultural products under certain conditions.

Response: The commitment to an open and liberal trading system should include strengthening the GATT rules on agricultural export subsidies and other unfair practices. Although current rules allow export subsidies on primary agricultural products, we need to work together over time to minimize the trade and resource distorting effects of these practices.

Criticism: The US also has a large, costly farm program.

Response: This argument is irrelevant. Most nations support domestic agriculture. The issue with the EC is export subsidies, not the size of respective domestic support programs.

INTERNATIONAL COMMODITY ISSUES

I. ISSUE

Sharp declines in commodity export earnings have cut deeply into the incomes of many LDCs. They seek corrective initiatives such as additional price stabilization agreements and augmented compensatory financing. Some Summit partners (e.g., France and FRG) may urge US cooperation in these schemes.

II. ESSENTIAL FACTS

Non-fuel commodity prices fell 25% between 1980 (a high price year) and 1982. Some recovery is occurring but these prices are likely to remain soft. LDCs want new price-raising commodity agreements, new concessional credit lines inside and outside the IMF to offset the decline in export receipts, and improved access to world markets. All will be important issues at UNCTAD VI. Our Summit partners agree that quick-fix commodity agreements are inappropriate. Canada sometimes supports US general opposition to suggested measures, but often takes cooperative attitudes toward LDCs. The Japanese give some support to LDC positions, particularly when ASEAN's interests are at stake. The UK often sides with the US in preferring to avoid market disruptive policies and large resource transfer programs.

III. KEY POINTS

Criticism (France and Italy): US opposition to new price-stabilizing agreements contributes to polarization of N/S relations. More flexibility would help defuse LDC confrontational positions, and contribute to market stability for commodities.

Response: The recession in industrial countries is the major cause of low commodity prices. The emerging recovery has arrested the decline. Restrictive agreements which promote inefficiency in market allocation will only postpone the necessary adjustments to changing world market conditions. US policy has been positive: we have resisted protectionism, adopted GSP, proposed a N/S trade round, agreed to an increase in IMF resources, participated actively in commodity discussions, and taken steps to help manage the current debt problems of LDCs.

Criticism (UK, France, FRG): The US has opposed proposals for easier LDC access to the IMF's Compensatory Financing Facility (CFF) and has refused to discuss in UNCTAD the need to complement IMF resources through a new facility outside the IMF.

Response: Export earnings stabilization is essentially a balance of payments (BP) issue which can be dealt with best in the IMF in the context of overall BP financing. The IMF will review the CFF in June and will decide at that time whether changes in the CFF are necessary. A new multinational institution to complement IMF's efforts would be counterproductive.

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ROLE OF THE INTERNATIONAL MONETARY FUND (IMF)
AND OTHER OFFICIAL CREDITORS

I. ISSUE

We should try to obtain endorsement of the IMF's role in dealing with current balance of payments and debt problems, urge timely ratification of the agreement to bolster IMF resources through the increase in quotas and enlargement of the General Arrangements to Borrow (GAB) and encourage closer cooperation among major countries in responding to financial emergencies.

II. ESSENTIAL FACTS

The IMF is the key institution in international efforts to ensure continued availability of official financing on a scale sufficient to enable debtor countries to adopt orderly adjustment measures. Agreement has been reached on an increase in IMF resources, including a 47% increase in quota subscriptions (to $99 billion) and a revision/expansion of the GAB to deal with systemic threats. The US and other countries are currently seeking the necessary legislative authority to implement the resource increase by November 30, 1983. Additionally, monetary authorities of the major countries, in cooperation with the Bank for International Settlements (BIS), have provided short-term bridge financing to some countries in situations involving system-wide dangers to tide them over during negotiations with the IMF and other creditors. Discussions are taking place to develop an early-warning system of emerging debt problems and to provide a more organized mechanism of responding to emergency financing needs which threaten the system.

III. KEY POINTS

Criticism: Summit countries strongly support the IMF's efforts but France and possibly Canada, Italy, and the EC may argue for increasing IMF financing and easing the economic policy conditions on use of IMF resources.

Response: IMF financing may ease adjustment burdens but does not remove borrowers' needs to put their houses in order. The key to IMF success is the ability to promote sound policies.

Criticism: France may ask IMF allocation of Special Drawing Rights (SDR) (an international reserve asset) to provide extra financing for LDCs.

Response: We are prepared to consider SDR allocation on the merits but remain concerned about the potential impact on inflation expectations and on Congressional support for IMF legislation. We want to avoid arousing LDC expectations.

ROLE OF COMMERCIAL BANKS

I. ISSUE

Commercial bank lending to less developed countries (LDCs) is larger than that of all other lenders combined. Continued commercial bank lending to LDCs with IMF adjustment programs is vital if adjustment programs are to succeed. In recent months, some commercial banks, both US and foreign, have sought to limit or reduce their lending to troubled borrowers. Regulatory proposals in the US probably will have the effect of further restraining many banks' willingness to increase foreign lending.

II. ESSENTIAL FACTS

As a matter of policy, the USG does not attempt to influence the specific lending of individual banks. We feel banks must be responsible for their own judgments; if the lending decisions are poor, the banks will suffer reduced profits and potential or actual losses. In shaping its adjustment programs, the IMF has required commercial banks to increase exposure in Mexico (by $5 billion), Brazil (by $4.5 billion), Argentina (about $1.5 billion), and Yugoslavia (about $600 million). This already accounts for about half the total estimated new commercial bank lending to non-OPEC LDCs in 1983.

III. KEY POINTS

Criticism: Will this mean that bank lending will continue to be excessive?

Response: Some slowdown in the rate of growth of international lending is expected in the context of reduced interest rates, lower inflation, slack economic conditions, heightened prudential considerations, and ongoing adjustment efforts in borrowing countries. Exposure in LDCs relative to bank capital might decrease.

Criticism: Should official creditors let banks decrease exposure?

Response: No, the burden of new and rescheduled lending should be fair to all participants.

Criticism: The US should urge its banks to increase net lending, both to assure against a financial collapse and to preserve the role of private finance in LDCs.

Response: We are willing to make general statements to encourage new lending, but prefer not to twist arms on specific cases. Our banks have, in fact, cooperated in many tough cases and we believe they are fully aware of their responsibilities and where their long-term interests lie.

THE MULTILATERAL DEVELOPMENT BANKS (MDBs) AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

I. ISSUE

Other Summit countries are concerned that we will not be able to complete our IDA VI contribution in FY84. This would jeopardize the projected July start of IDA VII. In addition, the World Bank (IBRD) and LDCs appear to have unrealistic expectations regarding the size of IDA VII. Some Summit countries may also support an increase in the IBRD's lending program.

II. ESSENTIAL FACTS

IDA VI originally covered the 3-year FY81-83 period. US funding was later spread over 4 years. Administration assurance to complete IDA VI funding by FY84 caused others to provide $2B more for FY84. $1,340M is needed to complete our contribution.

Versailles called for early IDA VII negotiations. Begun in November 1982, they are clouded by uncertain US IDA VI funding. The IBRD has asked for unrealistic IDA VII funding.

There is growing support among IBRD members for an increase in the $60 billion FY82-86 IBRD lending program.

III. KEY POINTS

Criticism: The US is not providing adequate financial support for the MDBs, particularly IDA.

Response: We are strongly committed to all the MDBs. FY83 subscriptions and contributions totaled $3.65 billion, including callable capital.

IDA funding is a special problem. There has been strong Congressional opposition to the IDA VI agreement. We have requested a $245M FY83 supplemental. This, plus the $1,095M FY84 request, will complete the US contribution. Congressional approval of full IDA VI funding by FY84 will be difficult.

The impact of any US IDA VI shortfall on the timing of US participation in IDA VII depends on the size of the shortfall. At this time, we still expect to participate in FY85.

IDA VII funding will probably be scarce. It is important not to have unrealistic expectations. We must be careful not to overstate the importance of IDA to LDC economic recovery. Sustained OECD growth, maintenance of an open world trading system, and pursuit of appropriate LDC domestic policies are paramount.

The $60 billion FY82-86 IBRD lending program will be adequate provided IBRD resource allocation is more effective.

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INTERNATIONAL INVESTMENT

I. ISSUE

To convince the Summit countries of the urgent need to reaffirm support for nondiscriminatory treatment of investment and to achieve greater global consensus to address investment problems -- especially government interventionist practices which distort or restrict investment and trade flows.

II. ESSENTIAL FACTS

As the world economic system improves over the next several years, growth prospects will pick up in both developed and developing countries, but capital availability will be a significant constraint on recovery. A key US goal is to encourage the Summit countries to reaffirm and extend their commitment to the principles of nondiscrimination embodied in the 1976 OECD investment instruments, especially the national treatment principle (the principle that foreign investors should be treated no less favorably than domestic investment in like situations). Some developed countries, such as Canada and France, though nominally committed to national treatment, have adopted policies which discriminate against foreign investors.

For the developing countries, planned levels of official development assistance and private credit flows are expected to fall short of expanding needs. Private investment can pick up some of the slack. LDCs seem to recognize this but many are unwilling to commit themselves to policies which would provide a stable framework for investment. The Summit countries should encourage developing countries to adopt liberal domestic economic policies which will encourage investment flows, and explore multilateral means of achieving the same objective.

III. KEY POINTS

Criticism: Developed countries are open to investment.

Response: Generally yes, but serious problems remain re treatment of investment, entry barriers, and disincentives. All need to be addressed in the OECD and bilaterally. We should resist pressure from the OECD to deviate from national treatment.

Criticism: The developing countries oppose efforts to reach global understandings on investment.

Response: This is a shortsighted view. Investment flows to developing, especially the poorest, countries are clearly insufficient for their needs. The advanced developing countries have an increasing stake in maintaining a healthy global investment system, and must share the responsibility for this.

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BILATERAL AID

I. ISSUE

Many less developed countries (LDCs) face large balance of payments deficits resulting from worldwide recession, weak demand and low commodity prices, inappropriate economic policies, and large debt servicing requirements. A major concern is how the international community can help these countries address their economic problems and reestablish a viable economic position and economic growth. Summit participants may wish to explore the possible role of bilateral assistance programs in assisting this adjustment process; currently most bilateral programs emphasize long term project assistance.

II. ESSENTIAL FACTS

The US believes that the reestablishment of non-inflationary economic growth in the developed world is central to the long term performance of the LDCs. We also believe that the IMF is the primary institution to assist the LDCs in their effort to address their immediate balance of payments problem. We continue to believe that our bilateral economic assistance program should be primarily focused on addressing the long-term development problems of these countries.

III. KEY POINTS

Criticism: In light of the serious balance of payments problems of the LDCs, should donors provide more assistance in program form rather than project form?

Response: While in specific circumstances we have provided liberal balance of payments assistance, generally in conjunction with the IMF, we believe our bilateral program should continue to focus on longer term problems of development.

Our bilateral assistance program emphasizes four basic elements: promotion of an increased reliance on market forces and the utilization of private initiative; development of the infrastructure necessary for long-term development; encouragement of sound economic policies; and assistance to increase the LDCs capacity to obtain, develop and adapt technology.

Criticism: How can donors increase the effectiveness of their assistance efforts, particularly in Africa?

Response: Increased coordination among donors reduces chances of donors working at cross purposes. The recent efforts for Kenya and Sudan, which have included the adoption of a leadership role by a major donor, represent a useful approach.

DEBT PROBLEMS OF OIL EXPORTING COUNTRIES

I. ISSUE

The decline in oil prices is creating serious financial difficulties for some LDC oil exporters, particularly Mexico, Venezuela and Nigeria. This has caused loss of business for some Summit country exporters and arrears on debt-service payments to Summit country banks.

II. ESSENTIAL FACTS

Mexico, alone among the oil exporters, has debt of such magnitude that serious aggravation of its present problems could pose a threat to the stability of the world financial and trade systems. Mexico has undertaken an IMF stabilization program supported by a package of financial assistance. World recovery should help Mexican economic and debt servicing prospects, and creditor cooperation should prevent a new crisis.

Elsewhere in Latin America, Peru also has IMF-supported economic programs in place. Ecuador is negotiating a program and Venezuela may seek one. These countries sharply reduced imports last year, adversely affecting some US exporters. There may be further cuts this year.

In Asia, Indonesia and Malaysia had strong balance of payments positions at the beginning of 1982 and have recently undertaken strong adjustment measures.

In Africa, Nigeria has yet to take significant actions and may encounter serious financing problems before year end.

Private bank exposure is $64 billion in Mexico, $27 billion in Venezuela, $8 billion in Indonesia and $7 billion in Nigeria.

III. KEY POINTS

Criticism: Reduced imports and debt service payments threaten Summit country exporters and the banking system.

Response: Economic gains to oil importers from cheaper oil should outweigh oil-exporter losses. Nevertheless, the problems of oil exporters will need careful attention. Summit countries need to encourage continued adjustment by these formerly prosperous LDCs. The Summit countries need to provide adequate private and official financing, maintain open trade with the LDCs, and achieve long-run non-inflationary growth to help reduce interest rates even further.

DEBT RESTRUCTURING

I. ISSUE

Some question whether special forms of debt relief are necessary to keep major borrowers from repudiating international debt or to prevent failure of the world financial system.

II. ESSENTIAL FACTS

The US has a broad-based strategy to deal with international debt problems. It includes all key participants -- LDC borrowers and governments, governments in the developed world, commercial banks and the IMF. The strategy has five key parts:

-- Most important is effective adjustment in borrowing countries. While they must take steps immediately to put their economies back on a stable course, this adjustment will take a number of years to complete to be orderly and effective.

-- The continued availability of official balance of payments financing on a scale sufficient to help see troubled borrowers through this adjustment period. Since the key institution for this purpose is the IMF, it is urgent that Congress enact the proposed increase in IMF resources.

-- The willingness of governments and central banks in lending countries to act quickly to respond to debt emergencies, but only in extraordinary circumstances on a case-by-case basis.

-- Continued commercial bank lending to countries that are pursuing sound adjustment programs.

-- Resumption of economic growth and maintenance of an open trading system so that borrowers will be able to increase exports and improve their balance of payments positions.

III. KEY POINTS

Criticism: This strategy seems overly optimistic.

Response: Existing strategy has a reasonable chance for success. The near term may be turbulent and there may be unexpected problems. Assuming resumption in world growth, medium term chances for improving debtor financial positions are good.

Criticism: Can we take more direct action?

Response: There are no quick fixes. All such proposals have major flaws which would deter needed adjustment in borrowing countries, serve to reduce commercial bank financing, and ultimately put more of the risk on the US taxpayer.

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DEBT SERVICE RATIOS OF KEY LDCS

This chart shows interest payments plus amortization of long and medium-term debt as a percent of exports of goods and services.

Country	Percent
Argentina	101
Bangladesh	less than 1
Brazil	79
Chile	64
Colombia	33
Guatemala	22
India	9
Israel	35
Ivory Coast	41
Jordan	8
Korea	18
Mexico	66
Morocco	42
Pakistan	15
Peru	63
Philippines	32
Singapore	less than 1
Syria	18
Taiwan	7
Thailand	21
Tunisia	14
Zaire	63