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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
244095	MEMO	DUPLICATE OF #244092; GEORGE SHULTZ, DONALD REGAN TO THE PRESIDENT, RE: WILLIAMSBURG SUMMIT: SCOPE PAPER	7	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.

COMMENTS ON ATTACHED THEMATIC PAPER

The thematic paper (attached) served as the basis of our discussion at the last sherpa meeting and is now regarded by all governments as the common briefing paper or point of departure for the heads for their discussions at Williamsburg. It is not related in any way to the joint statement that will be issued at Williamsburg but is at best, as we put it at the last sherpa meeting, raw material for the discussion at Williamsburg, which is in turn the raw material for the joint statement. Since the organization, balance, and upbeat tone of the thematic paper are favorable from the point of view of the President's interests, we should seek to preserve important elements of this paper in the discussions among the heads and thereby to incorporate them in the instructions for the drafting of the joint statement.

Following is a brief summary of the major issues that arose in the discussion of the thematic paper at the last sherpa meeting, leading to the final revised thematic paper at Tab A.

I. Summary Introduction

There was objection from the French, EC, Canada, and the UK to stating the policy actions in the form of linkages between growth and trade, trade and finance, and growth and monetary stability. They argued that this presentation gave too much emphasis to trade and relatively downplayed the role of high interest rates, budget deficits and exchange rate instability as the major obstacles to growth. They proposed that the policies be stated as separate ticks--one for growth, one for trade, one for finance, and one for monetary stability--and that the linkages be dropped. This alternative facilitates the identification of single issues and single solutions. We resisted, arguing the importance of an integrated and balanced approach that followed from emphasizing linkages. Eventually, as the revised final version of the thematic paper indicates, we agreed to identify the interrelationships first and then to list policies separately that exploit and reinforce these interrelationships.

II. Assessment: Realistic Optimism

There was a general agreement that the balance between progress and remaining problems in this section was about right. The French, supported by the British, Canadian, and EC, displayed great sensitivity to any statement that improvements were evident in only some countries. They argued that the nature and pace of improvements were different in different countries but that all were improving. (Pointedly, we asked what forecast they were referring to.) Unemployment, especially among young people of the French economy, was elevated to a central place as the key remaining problem, while the other problems were identified as threats to the enduring recovery needed to reduce unemployment. The Japanese, supported by others, proposed a reference to the "much more acute" conditions in developing countries.

III. Common Approach to a Sustained Recovery

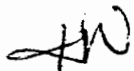
The items that attracted greatest controversy were the trade items (5th through 8th ticks). The French, EC, and British sought to water down the "reverse protectionism" tick until they were reminded that this was language that had just been agreed upon at the OECD Ministerial Meeting. This same group with Canadian support resisted identifying key "current problems" for early resolution, especially the agricultural and safeguard items. The French further opposed adamantly the reference to a study on liberalization of trade in high technology products, especially to any suggestion that such study would be done in GATT. Eventually, this item was incorporated into the "reverse protectionism" tick, preserving our interest in identifying barriers in this area as trade-distorting domestic measures. Finally, this same group of countries, also with Italian support, sought to water down the reference to new trade liberalization talks in the GATT.

The Canadian, Japanese, French, and EC also sought to beef up the references to aid and the dialogue with developing countries. Here the British stood with us, while the Germans went along with the others, on political but not financial aspects of the issue.

IV. Longer-Term Policy Goals and Decisions

The controversies here centered on intervention, the international monetary conference and an new GATT Ministerial. The French and EC argued for a tick that would say intervention helps to promote economic policy convergence. Our argument, of course, is just the reverse. We agreed to add on the phrase, "continuing our agreements on exchange market intervention," to the tick on economic policy convergence. The French, supported by others, insisted on recognition of Mitterrand's call for an international monetary conference. We resisted. Eventually, we added a tick that invited Finance Ministers to define the conditions for improving the international monetary system and in that context to consider the role which an international monetary conference might play in due course. Finally, the French supported by others, opposed a GATT Ministerial and insisted on parallelism in how we treat a new trade conference and an international monetary conference.

The Germans argued for a new tick on preservation of natural resources, and the Japanese sought reference to the improvement of health.



Henry Nau

I. SUMMARY INTRODUCTION

This is a time of real improvement in economic circumstances. Recovery is underway, and this fact increases our mutual confidence that it will soon spread to all countries, industrial and developing. The challenge is to ensure that this recovery endures and reverses a decade of cumulative inflation and unemployment. In this effort, we are mindful of the basic interrelationships that link our economies and the world economic system:

- The link between sustainable domestic growth and the open trading system.
- The link between convergence of domestic policies towards non-inflationary sustainable growth and greater exchange rate stability.
- The link between open markets and the availability of financing.
- The link between international economic cooperation and world progress.

To meet the challenge of an enduring recovery for ourselves and future generations requires steady and purposeful action over both the short and longer term, across a range of policies that exploit and reinforce these interrelationships.

- Promoting conditions for growth, employment and job creation, structural adjustment, and acceptance of technological development.
- Maintaining the fight against inflation with the objective of achieving lower interest rates and more stable exchange rates while intensifying consultations on economic policies and market conditions.
- Supporting the international financial system and strengthening world economic cooperation and institutions.
- Reversing protectionism and beginning to work to achieve further trade liberalization.
- Recognizing that prosperity is more than material gain, but also reflects our basic shared values of political freedom, economic opportunity, cultural creativity, and human dignity, and contributes to the defense of these values which also guide our economic and other relations with Eastern countries.

II. ASSESSMENT: REALISTIC OPTIMISM

Improvements are undeniable:

- Major successes have been achieved in reducing inflation.
- Interest rates have been significantly reduced.
- Productivity increases are being registered.
- Some successes in controlling budget expenditures are being achieved.
- Consensus exists to reduce inflation and unemployment on the basis of sustainable growth promoting policy convergence, further reduction of interest rates and greater stability of exchange rates.
- Measures to reduce dependence on oil have helped to bring about a decline in oil prices.
- Recovery in our countries spreading to others will help ensure the revival of world trade and easing of the debt burden of many developing countries.

However, unemployment, especially among young people, remains intolerably high and continues to increase in some countries. It can be brought down only if an enduring recovery is achieved. Serious problems remain which, if untended, will endanger the prospect of an enduring recovery.

- Differences in inflation among countries remain too great.
- Inflationary expectations, together with unacceptably high current and future budget deficits and the possibility of excessive and volatile monetary growth, keep interest rates too high, threatening to inhibit investment and recovery and producing distortions and volatility in exchange rates.
- Protectionist pressures threaten our open trade and financial system and prospects for recovery in both industrial and developing countries.
- Conditions in many developing countries remain much more acute than in our own; in many of them, unprecedented international debt burdens, exacerbated by high interest rates and low commodity prices, continue to constrain trade and, even in some cases, to threaten financial and related political stability and create human hardship.

III. COMMON APPROACH TO A SUSTAINED RECOVERY

No single country, policy or immediate action can ensure a quick or sustained recovery. Success requires a common approach involving actions taken now across a broad range of policy areas, anchored within a framework of longer-term policy goals and decisions.

Actions Now:

- Enhance the intensive consultation process initiated at Versailles to promote convergence of economic conditions in key currency countries and thereby contribute to greater exchange rate stability.
- Develop cooperative consultations on policies and exchange market conditions and, while retaining the freedom to operate independently, be willing to intervene in exchange markets in a coordinated manner in instances where we agree such intervention would be helpful.
- Encourage governments to reduce excessive budget deficits, especially by reducing expenditures, thereby lowering inflationary expectations and high interest rates.
- Pursue appropriate non-inflationary growth of monetary aggregates to achieve and maintain low inflation and interest rates.
- Halt and reverse protectionism and make use of favorable conditions provided by recovery progressively to relax and dismantle trade barriers and trade-distorting domestic measures, including those related to trade in high technology products.
- Give new impetus to resolve current problems in agricultural trade, conflicts of jurisdiction and the need to achieve a safeguard agreement (by October 1983) as mandated by the GATT Ministerial.
- Agree to press forward with the GATT work program on trade in services.
- Begin work now to achieve further trade liberalization in the GATT, focusing particularly on trade with and among the developing countries, and on their ability to export and so to service their debt.

- Secure early ratification of the increase in IMF and GAB resources and provide interim financing as appropriate.
- Reaffirm commitments to provide agreed funding levels for IDA and the other multilateral development banks.
- Continue with agreed strategy, and strengthen cooperation, for managing current debt problems, including effective adjustment, adequate private and official financing, and sustained, non-inflationary recovery in industrial countries.
- Welcome openness to dialogue expressed by developing countries at New Delhi and Buenos Aires conferences and engage constructively in UNCTAD VI, emphasizing our program for a durable recovery and practical proposals to manage debt problems, facilitate adjustment, promote trade, revive commodity markets, encourage more private investment in, and official assistance for, developing countries and strengthen the dialogue with developing countries in appropriate fora.
- Agree to consult among each other and with other countries to address interrelationships among growth, trade, and finance in the world economy and to encourage better coordination among international economic institutions.
- Implement agreed conclusions for early action reflected in the results of work programs on East-West economic relations. (Identify significant results of pre-Summit meetings.)

IV. LONGER-TERM POLICY GOALS AND DECISIONS

- Sustain fight against inflation and structural budget deficits to encourage a higher level of investment and new job creation.
- Pursue the consultative arrangement agreed at Versailles to promote economic convergence toward low inflation and sustained growth and thereby achieve greater exchange rate stability, continuing with our agreement on exchange market intervention, in the context of an open trading, investment and financial system.
- Invite Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

-- Promote technological development and trade, including their public acceptance, and in particular the implementation of the specific projects included in the program for cooperation initiated at Versailles.

-- Promote structural adjustment and its public acceptance, in order to enhance competition and the flexibility of markets and to improve the allocation of resources, by all appropriate means including revitalization of training and the encouragement of mobility.

-- Invite Ministers of Trade, in consultation with the Director General of the GATT, to define the conditions for improving the open multilateral trading system, including trade between developed and developing countries, and to consider the possibility of more frequent Ministerial meetings in the GATT to maintain urgency in this process.

-- Examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of public and private finance and investment to the developing countries, with special attention to an adequate flow of resources to the poorer countries, both bilaterally and through IDA, the IBRD and similar institutions.

-- Continue efforts to conserve energy and develop economic alternative energy resources so as to ensure Western energy security and enhance energy production in developing countries.

-- Find practical ways to promote increasing food production in developing countries.

-- Work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes (e.g., acid rain).

-- Promote cooperation in the development of human resources, including education and training and the improvement of health.

-- Continue work in appropriate existing fora to develop agreed analysis of our economic relations with the East, with attention to our shared security concerns, and on this basis pursue independent policy actions consistent with agreed principles and common analysis reflecting the fact that these relations should be compatible with the basic values and security concerns of Western countries.


MEMORANDUM

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WASHINGTON

MEMORANDUM FOR THE PRESIDENT

May 20, 1983

FROM: WILLIAM P. CLARK 

SUBJECT: Preparatory Materials for Williamsburg Summit

Attached are materials to prepare you for the economic discussions at Williamsburg:

- A. "Your Role as Chairman of the Summit." This paper suggests the objectives and techniques you may wish to use to conduct the five meetings, four meals and two coffees for which you will be chairman.
- B. "Secretary Shultz's 'Scope Paper'." This paper gives George's recommendations for the objectives and strategy to use at Williamsburg.
- C. "Overview Papers." These three papers from the State Department give detailed background on the key economic subjects of trade, debt and finance; economic policy and multilateral surveillance; and East-West trade.
- D. "Thematic Paper." This paper was written by the personal representatives during the preparatory process. It is the "departure point for Summit discussions," and includes the serious topics which will be addressed at Williamsburg. Attached to the Thematic Paper is the "Statement on Strengthening Monetary Stability" which has been written by the Finance Ministers during the preparatory process. We will recommend that this paper be issued at Williamsburg with the joint statement.
- E. "Perspectives of the Other Participants." This section includes a summary matrix giving the views of the other countries on the key economic issues at Williamsburg. In addition, a short paper from USIA summarizes public opinion on the key issues in all the summit countries.

These materials are primarily for your personal preparation before the Summit. I do not anticipate you will have to use them at Williamsburg. On Monday, May 23 I will send to you the paper which you will want to carry into the Summit discussions - it lists the objectives for each session at Williamsburg, the talking points and a "conclusions checklist" for each session.

You will also receive on Monday the talking points for the political discussions which will take place during the meals at Williamsburg.

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On Tuesday, May 24, we will begin the final round of pre-Summit briefings. These briefings are scheduled to parallel the events that will take place at Williamsburg to prepare you both for the format of Williamsburg and the substance of the discussions.

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DT/ellh DATE 12/18/2019

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK
SUBJECT: Your Role as Chairman at the Summit

You will be the Chairman of all the sessions at the Williamsburg Summit. This group of heads of state and government is a collegial one. The Chairman is not in command so much as he is the center of communications. His influence is subtle and involves:

- calling on someone to comment at the outset of the discussion or at a critical moment to counter a bad idea or to confirm an agreement.
- bringing the discussion back to key issues.
- checking off issues and agreements as they are discussed.
- being alert for new ideas that have not been part of the preparatory process and noting that these issues have not been sufficiently prepared for detailed discussion.
- summarizing at the end of each session what has been said and how the discussion will be represented to the press.

Moreover, since this Summit is the first one to try to draft a communique at the meeting itself based on the actual discussions of the heads, the Chairman has the additional and special responsibility to guide the conversation toward conclusions that can be translated into instructions to the sherpas for drafting the communique.

This paper identifies for you the specific aspects of your task as chairman in each of the sessions you will have at Williamsburg. Other papers in this book provide guidance on your role as the U.S. representative.

Saturday Dinner

Topic: Armd Control, INF and Security

Time Allotted: 8:00-9:30 p.m.

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Objectives:

- have a good, informal discussion that sets the tone for the rest of the Summit.
- emphasize the unprecedented unity within the Alliance on security and arms control issues.
- approve the Summit Statement on INF to be issued the next day at the Summit.

Techniques:

- open the dinner with a warm welcome and perhaps historical or personal anecdote on Williamsburg (will supply suggestions).
- turn to Thatcher to begin the discussion.
- after general points have been made, turn to the draft INF statement and ask for comments and approval.
- conclude the conversation among heads only by indicating that it is time for Foreign Ministers to join you for coffee.

Things to Watch Out For:

- any attempts to link arms control issues to economic subjects (will supply counters).
- Any attempt to make arms control more important than defense in protecting security interests.

Coffee After Saturday Dinner with Foreign Ministers

Topic: Arms Control, INF and Security

Time Allotted: 9:30-10:15 p.m.

Objectives:

- inform Foreign Ministers of results of heads only discussion.
- agree on common press line with respect to the INF statement.

Techniques:

- welcome Foreign Ministers (joke about heads discovering they didn't need Foreign Ministers and solving all problems themselves).

- ask Thatcher to summarize dinner discussion among heads.
- open up for comment.
- conclude by asking Shultz to summarize common press guidance on INF statement and more generally on the Saturday dinner discussion.

Sunday Morning Heads Only Session

Topics: World Economic Recovery - Themes, Assessment and Commitments.

Time Allotted: 9:00-11:30 a.m.

Objectives:

- conduct general, elevated discussion (avoid details) on individual and common approaches to sustained recovery.
- secure consensus on general theme, tone and structure of the joint statement (as close to the thematic paper as possible).
- identify issues of special interest for discussion with Ministers in the afternoon.

Techniques:

- suggest at outset desire for discussion of general approaches, identification of broad themes, tone and structure for joint statement and your intent to summarize at the end.
- lead off with your own statement emphasizing common interests (avoid arguing any contentions points at the beginning).
- turn to Mitterrand to continue discussion (puts him in the position of starting contentiousness if he is so inclined).
- do not answer Mitterrand, but guide discussion, if possible, to Kohl and Thatcher who will oppose Mitterrand's points if necessary.
- as each leader speaks, check off points on your thematic paper outline as they are raised and any notations that may be appropriate.

- after all leaders have spoken, ask for discussion on points that have not been raised (e.g., ask Mitterrand if he has any comments on technology - will flatter him) or focus discussion on points of difference that need further explanation.
- break for 10 minutes or so at an opportune point and have coffee or tea served.
- summarize at the conclusion what has been said highlighting areas of agreement, especially for joint statement. Ask others for comments on your summary and clarify or modify as necessary.
- agree on how all countries will represent the morning meeting to the press.

Things to Watch Out For:

- topics that were not presented in the preparations and do not appear in the thematic paper.

Late Sunday Morning Session with Foreign Ministers

Topic: Summarize Morning Heads Only Session for Foreign Ministers

Time Allotted: 11:30-11:45 a.m.

Objectives:

- provide a common summary of the morning's discussion to Foreign Ministers for purposes of bringing the press.

Techniques:

- repeat your summary from the conclusion of the morning heads only session.

Sunday Lunch

Topic: East-West Political Relations

Time Allotted: 12:10-1:15 p.m.

Objectives:

- hold general, informal discussion on political relations with the Soviet Union and Eastern Europe.

Techniques:

- call on Kohl to begin discussion.
- ask Kohl at end to summarize discussion for purpose of establishing common press line.

Sunday Afternoon Plenary Session

Topic: Actions Now and in Longer-Term to Sustain World Economic Recovery.

Time Allotted: 1:45-4:45 p.m.

Objectives:

- to gain agreement on annex to Joint Statement on improving economic convergence.
- to identify action items on which there is agreement and which can be included in instructions to sherpas for drafting joint statement.
- to focus on action items where differences prevail and, if they are not ripe for agreement, to identify post-Summit procedures for narrowing these differences.

Techniques:

- briefly summarize conclusions of morning heads only session and identify the issues the heads decided in the morning they wanted to discuss with Ministers.
- turn to Regan to begin discussion.
- seek to involve heads to nail down items on which agreement is close at hand.
- let Ministers carry the discussion where differences prevail, turning to heads to decide what post-Summit procedures might be desirable to let Ministers discuss these differences further.
- ask Shultz to summarize the discussion at the end and to establish common guidance for how the discussion will be represented to the press.

- identify issues to be discussed further at Monday morning plenary.
- turn to issue of instructions to sherpas on first draft of joint statement. Give your summary of these instructions and ask for comment. Clarify or modify as necessary.

Late Sunday Afternoon Session with Sherpas

Topic: Instructions to Sherpas for First Draft of Joint Statement.

Time Allotted: 5:00-5:15 p.m.

Objectives:

- to issue firm and full instructions to sherpas.
- to reflect a unity among the heads on such instructions so as to constrain the sherpas in the subsequent drafting process.

Techniques:

- present instructions agreed on among the heads at the end of the afternoon session.
- ask the sherpas if there are any questions.

Things to Watch Out For:

- ambiguity in the instructions.
- heads saying that joint statement should be left to sherpas.

Sunday Dinner

Topic: Middle East Issues

Time Allotted: 8:05-9:55 p.m.

Objectives:

- hold general, informal discussion on situation in Middle East.

Techniques:

- call on Mitterand to begin discussion.

- ask Mitterand to summarize discussion for purpose of establishing common press line.

Possible Sunday After Dinner Coffee with Sherpas

Topic: Joint Statement

Time Allotted: 10:00-10:30 p.m.

Objectives:

- assess status of drafting of joint statement.
- have heads decide any issues that have developed among the sherpas.

Techniques:

- ask Allen Wallis to summarize status of drafting.
- open for comments by heads (not sherpas).
- seek a consensus or an agreement to disagree among the heads so as to minimize all night bargaining among sherpas.
- issue further instructions to sherpas.

Monday Morning Plenary Session

Topic: Carry-Over Issues and Joint Statement/Annex

Time Allotted: 9:10 a.m.-12:30 p.m.

Objectives:

- continue discussion of issues from Sunday afternoon session.
- decide on follow-up mechanisms for issues that need further post-Summit work.
- review and finalize joint statement and annex on improving economic convergence.

Techniques:

- if first draft of joint statement shows broad agreement (you will see a copy at breakfast that morning), spend some time discussing carry-over issues and follow-up mechanisms (avoid, in short, allowing the time available to open up issues on the joint statement).

- with appropriate time remaining, turn to joint statement and annex
- seek first final endorsement of annex (agreed to on Sunday afternoon).
- turn second to joint statement.
- urge finalization of joint statement by 12:30 so heads can have wrap-up lunch while joint statement is being translated and printed. (Do final drafting in plenary session; otherwise heads lose control.)
- use 12:30 deadline to close on final language in joint statement.

Monday Lunch

Topic: Wrap-Up Session

Time Allotted: 12:40-2:10 p.m.

Objectives:

- assuming joint statement and annex have been approved, conduct post-mortem discussion of Summit issues, both political and economic.
- discuss common basis for briefing press on critical aspects of joint statement (avoid post-Versailles problem of open disagreements).
- look ahead to next Summit.

Techniques:

- ask for general assessment of Summit by each leader. (Was it worthwhile?)
- establish common basis for briefing press on Summit outcomes (jokingly ask Mitterrand if he would make sure that Don Regan understands what heads have agreed on).
- ask for suggestions to improve Summit.
- call on British representative (may not be Thatcher, who may have left) to extend invitation to next Summit.

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OVERVIEW PAPER: TRADE, DEBT, AND FINANCE

I. US Objectives and Initiatives

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BY do DATE 10/18/2019

Objectives

- Promote openness of the trade system to enhance global economic recovery and to facilitate management of current debt problems while promoting long-term international financial stability.
- Generate support for future liberalization of DC-LDC trade to promote sustainable DC growth, LDC development, and improved North/South economic integration.

Initiatives

- Reaffirm OECD commitment to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade distorting domestic measures, and direct our trade officials to work out a program to implement this commitment;
- Agree to begin preparations for trade liberalization between DCs and LDCs;
- Reinforce and expand GATT work on agriculture, services, technology and investment;
- Signal intention to convene GATT Ministerial in 2-3 years time to launch new trade negotiations; and
- Get approval of US proposal for improved coordination between macroeconomic/finance and trade policies (including joint meetings of trade and finance officials and senior officials from the IMF, GATT and the OECD).

II. Background and Pre-Summit Preparation

US position has been discussed with sherpas, at May 9-10 OECD Ministerial, and at May 10-11 Trade/Finance Ministers meeting in Paris.

The OECD Ministerial agreed that:

"the economic recovery, as it proceeds provides favorable conditions which Member countries should use, individually and collectively, to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade distorting domestic measures, particularly those introduced over the recent period of poor growth performance."

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This represents a major step forward over the commitment at the GATT Ministerial last November. It establishes a clearer commitment to roll back existing restrictions and it did not produce an EC reservation.

The OECD Ministers also stated that they intend to "provide more effective help to the poorer developing countries" and to "work to resolve international debt problems in a trade-expansionary way as recovery and adjustment by debtor countries proceed."

At the subsequent meeting of Trade and Finance Ministers, hosted by Secretary Regan and Ambassador Brock, there was general agreement that protectionist trade measures would be damaging to both the debt situation and the global economic recovery. There was also general support for special trade measures to assist the poorest developing countries. This meeting was attended by all Summit countries except France, which declined, plus the European Community, Switzerland, the Netherlands, and top officials of the IMF, GATT, and the OECD.

We anticipate a follow-up meeting, again at Ministerial level, in the fall, perhaps among the Group of Ten countries. (This would include Sweden and Belgium, as well as France.) One of our major purposes at the Summit is to give a sense of direction to this exercise.

III. Other Countries' Objectives and Stance on US Proposals

General

In general, as recovery proceeds and is sustained, there is greater willingness to resist protectionism. But implementing this willingness will be difficult as long as unemployment remains high. There will also be a general reluctance to signal a new trade negotiating round in 2-3 years time.

The Europeans are likely to press for US acceptance of their agricultural export subsidies, trying to forestall additional US export subsidies to displace European subsidized sales.

Specific

These general positions vary by country.

Germany, and to a lesser extent the UK, are likely to support the US.

France and perhaps Italy are likely to stress the need for an ongoing dialogue with the LDCs on financial issues, and

the need to reduce interest rates and stabilize exchange rates through intervention, but to strongly resist statements which imply opening their markets.

Japan is defensive about its role in the world trading system and likely to concentrate on deflecting criticism from the EC and the US on the need to absorb more imports. However, Nakasone has been more forthcoming on trade liberalization in recent months. Japan may be more assertive in suggesting financial initiatives.

Canada has already indicated its lack of enthusiasm for trade liberalization, largely because it does not want to commit itself to accept more imports from LDCs given its own unemployment problems.

Cooperation between trade and finance officials in several Summit countries is poor and they are skeptical about trying to improve it. Finance Ministers and Trade Ministers also are engaged in turf battles. There is likely to be considerable dissension on how the burden of absorbing increased imports from the LDCs should be divided among the industrial countries.

In short, most Summit participants hope that global economic recovery, perhaps combined with more generous official financing, will be enough to resolve current LDC balance of payments and debt problems and that little or no trade liberalizing actions will be required on their part.

IV. Discussion Of Objectives

A. Trade

Traditionally, the US, the UK, and Germany have been the strongest advocates of the free trading system. The recent recession and European Community reluctance to continue the process of liberalizing trade have put into question the future of free trade. You have a chance at this Summit to reassert strong US leadership for free trade. You must remind the other participants that the exchange of goods, based on comparative advantage, is the reason we have a world economy. Without trade, no one would seek international finance. It is critical that the Summit reaffirm the basic commitment to open markets.

You can win German, British, and perhaps also Japanese support for this objective by arguing for progress in phases.

Points to be made:

- At OECD, we all agreed to reverse protectionism and dismantle barriers. To be credible, this meeting should give real direction to that effort.

- I propose that we approach this task in three phases.
- First phase would be to ask our trade officials (EC Commission in case of Europeans) to develop a specific plan to implement the commitment we took at OECD. Their task is well expressed in the Themes Paper point dealing with reversing protectionism.
- The second phase would be to begin preparations soon for new trade liberalization between developed and developing countries. It is vital to a credible strategy for dealing with the debt problems we inherited from the last decade that we hold out the real prospect that developing countries will be able to expand exports to service that debt over time without compromising their growth objectives.
- At the same time, we should be taking action to strengthen the GATT. We should begin to develop better rules on trade in agricultural products, and on trade in services and high technology products. We should also develop improved rules governing international investment. As the world changes, so must we adapt the rules that govern our trade.
- The third phase would bring this work together by launching new trade negotiations in 2 or 3 years time, assuming recovery is sustained. We should signal our intention to do this at this meeting in order to make our strategy clear and coherent.
- During the time while this work and preparations are going forward, we should continue the process of consultations among trade and finance officials in order to assure better coordination between trade and financial policies and to achieve further opening of markets in the context of managing debt problems.

B. Debt and Development

Proper management of the debt problem requires (a) ratification of the IMF quota increase, and (b) confirmation of an agreed strategy containing the following elements:

- Effective adjustment in borrowing countries which includes avoidance of new trade barriers;
- Availability of official financial resources (IMF, multilateral development bank lending, and bilateral aid programs) adequate to support orderly LDC adjustment;

- Availability of short-term bridging financing from official government and central bank creditors pending agreement on IMF-supported adjustment programs;
- Continued increases in net commercial bank lending;
- Sustained, non-inflationary recovery in developed countries.

Coordination between trade and financial policies will be needed to solve the LDC debt problem.

- In the short term, LDCs must implement IMF programs and receive near-term financing to permit orderly adjustment while maintaining essential imports. This also promotes sustainable growth in the industrialized countries.
- In the short and long term, the industrial countries must maintain and increase the access of developing countries' exports to their markets, because without increased exports, LDCs will be unable to manage their debt obligations. (Domestic political pressure in Summit countries will make this particularly difficult unless the LDCs provide some assurances that they will participate fully in the world trading system and will assure more open access to their markets when economic conditions permit.)

Points to be made:

- LDCs must implement appropriate adjustment policies to cope successfully with their debt problems.
- Debtor countries need to increase their exports and to get adequate external financing to complete successfully their adjustment programs.
- Declining interest rates have and will continue to ease the immediate repayment burden of the LDCs, but cannot provide a long-term solution to debt problem in the absence of increased trade.
- It is therefore critical that the Summit and other industrialized countries take actions to ensure that their markets remain open.

C. Coordination

The linkages between availability of export markets and the LDCs ability to service their debts, between open markets

and economic growth, between adequate financing and the avoidance of import restrictions and export subsidies, and between economic growth and the avoidance of protectionism, all point to the value of developing greater cooperation and coordination between trade and finance ministers. International trade/finance meetings are desirable.

Trade Ministers do not meet regularly. More frequent ad hoc meetings of trade officials and more frequent GATT Ministerial meetings would be useful. We hope to convene GATT Ministers again in 1985 to launch new trade negotiations.

Improved coordination among GATT, the IMF, and the World Bank is very important.

Points to be made:

- Critical linkages between trade and finance in promoting global recovery require governments to develop better cooperative links and coordination between trade and finance issues.
- Attention should be paid to: (a) the dangers to the international economic system and economic recovery posed by pressures on world trade and finance; (b) measures that need to be taken to avoid the immediate dangers; and (c) what longer term measures can be taken to improve cooperation among the multilateral institutions, especially the IMF and GATT.
- The Summit countries formally should call for a cooperative approach and highlight the mutual responsibilities in resolving current problems and paving the way for sustained, non-inflationary, future global growth.

I. US Objectives and Initiatives

For general economic policy we have two interrelated objectives at the Summit:

- securing the durability (on a sustainable, non-inflationary basis) of the economic recovery through a recognition of the interrelationships among disciplined monetary, fiscal and structural policies; and
- obtaining increased recognition that lasting way to achieve greater stability in exchange rates is to move toward better convergence of economic performance among the major economies (through a possible annex to the joint statement on improving economic convergence).

Not coincidentally, the basic policy approach we have in mind for Summit countries to converge on encompasses the set of policies we believe is necessary for sustainable, non-inflationary growth. To help ensure such policies will be followed, it would be useful to strengthen the multilateral surveillance of policies agreed at the Versailles Summit.

II. Background and Pre-Summit Preparation

The Finance Ministers are working on proposals for strengthening the surveillance process and may decide to recommend that Heads of State attach to their joint statement, a public reaffirmation of the multilateral surveillance process agreed upon last year at Versailles. Specifically, Finance Ministers are working toward:

- reaffirmation of the objectives of the surveillance effort;
- elaboration of country specific policy goals by the major countries;
- definition by each country of the policy approaches it intends to follow to achieve its goals; and
- continuing to assess progress in this framework.

This approach confirms the need for discipline and underlying stability; it exerts that discipline by forcing key policymakers both to specify goals and policies, and to submit to a collective assessment of their results. As a tactical matter, this reaffirming the primary importance of policy surveillance and convergence will also deflect calls for setting exchange rate targets (and attempting to reach them by exchange market intervention or short-term policy changes).

At Ottawa, you emphasized the importance of sound domestic policies as the foundation for the world economy. In two years, your vision has been validated. In some sense, the verdict of Ottawa is in: those countries which have pursued anti-inflation policies as the basis for growth are those which are now experiencing real improvement.

Prospects for world economic recovery have strengthened in last few months. Real growth in the industrial countries is likely to be around 2-1/2 percent in 1983 after zero in 1982. Several factors have contributed to a more favorable outlook:

- US recovery is recognized as underway, and US real growth is likely to be 4-1/2 to 5 percent, stronger than earlier thought.
- Oil prices and the US turnaround have bolstered consumer/investor confidence and growth prospects.
- Inflation expectations are easing in most countries and interest rates have fallen.

Differences in policies, performance and prospects among Summit participants are in sharp focus. Two distinct groups have emerged since 1981 Ottawa Summit in terms of policy and performance:

1. The US, UK, Germany and Japan (with varying emphasis) have generally stuck to policies of fighting inflation, deregulating economies, slowing the growth of government expenditures, decreasing structural budget deficits, controlling monetary growth. All have achieved big declines in inflation, setting the stage for sustainable, non-inflationary recovery.

2. France, Italy and -- until around the middle of last year -- Canada have, by and large, put emphasis on direct government programs to bolster employment, support social objectives, and resist economic adjustment to market realities. The result has been high inflation rates, large government roles in the economy, and rising subsidies to inefficient sectors contributing to growing budget deficits. The effort to maintain these inflationary policy approaches in the face of disinflationary trends in other countries has put their payments balances and exchange rates under pressure.

Recent German and French elections reflect those divergences. Chancellor Kohl returned to power obtaining strong confidence vote in conservative economic program. Likely to continue budget restraint; resist pressures for reflation. On other hand, President Mitterrand lost support in March election due to dissatisfaction with socialist/nationalization program.

Pressure on franc intensified. President Mitterrand devalued franc, reorganized Cabinet, and announced a tough new austerity package containing tax and forced savings measures designed to reduce domestic demand and hence to cut burgeoning trade deficit. Program represents shift in objectives from initial Socialist growth goals to a rapid reduction in balance of payments deficit; virtually no real growth in French economy is expected for 1983.

- For those countries which have succeeded in reducing inflation, the outlook is for solid recovery in 1983 strengthening during the year; continued low inflation; and small reductions in unemployment rates this year, with larger reductions coming in 1984. But for those which have been relatively unsuccessful in reducing inflation, the outlook is less optimistic.

III. Other Countries' Objectives and Stance

The differences in performance and prospects outlined above point to potential differences at Summit in areas of macroeconomic policy and exchange rates, with French differing most from US views.

Growth policies. President Mitterrand failed to generate sustainable growth and has little political room in his traditional constituency for policies of austerity to bring about lower inflation. He blames French problems on others -- especially US -- and would like to see additional expansion undertaken by US, Germany, and Japan so as to ease his severe unemployment problems by increasing French exports. The French claim US interest rates are too high (monetary policy too tight and/or budget deficit too large) and a root cause of French problems. The British, Germans, and Japanese are feeling much more confident about the economic outlook. None is willing to risk a shift to expansionary policies.

Interest rates/budget deficits. In varying degrees, France and the other Summit countries continue to complain about high "real" US interest rates, blaming large budget deficit as primary cause. They consider these factors the major threat to sustained recovery. They argue that they are forced to hold their own real interest rates high because of exchange rate pressures.

They generally support tax increase and/or defense cuts as solution to "out-year" deficits. Recognize that tax increase now or in 1984 may be counterproductive.

Exchange rates. The French are leading calls for greater governmental intervention in exchange markets and movement toward fixed exchange rates. Mitterrand has proposed new "Bretton Woods" monetary conference to deflect severe domestic criticism of his economic policies and to create a scapegoat for economic ills if proposal is ignored. He may argue for US intervention in market to hold the dollar down (i.e., help hold the franc up). Others recognize "safe haven" factor in dollar's strength but fail to give sufficient weight to general attractiveness of US market for capital investment with general stability of economic policy, and vast opportunities for free operations.

The improved economic climate, the experience of recent years with the conspicuous failure of French economic policy and the intervention study conclusions (agreed at Versailles and released to the public on April 29) have promoted greater consistency of views among the US, UK, Germany, and Japan on major economic policy issues. However, the others are reluctant to break openly with France and tend to give French views mild to strong support depending on the issue and the forum.

However, all other Summit countries including France have endorsed US ideas for strengthening multilateral surveillance. They are likely to support the initiative at the Summit, although France may try to trade off their agreement to it for some movement on exchange rate policy and/or softening of a strong stance on open trade.

IV. Discussion of Objectives

You have consistently urged the importance of reducing government spending in order to bring down budget deficits, and stable, non-inflationary growth in money supply. Others are worried that both risk getting out of control in the US. One of your major objectives is to reassure your partners that you are as concerned as they, and fully determined to use the authority of your office to keep US policy on track.

In addition, countries with relatively poor performance, particularly France, favor systematic intervention in foreign exchange markets to stabilize exchange rates. With policies and performance out of step with others, they face exchange market pressures on their currencies and want to try to force exchange rate stability through such government intervention.

The March realignment of the European Monetary System -- preceded by massive speculation, official intervention, and market disruption -- is strong evidence of the futility of intervention and of the inability of the fixed exchange rate system (EMS) to impose discipline and order.

Attempts to broaden the EMS-type experience, to try to deal with basic problems through market intervention, must be resisted. The debate needs to be shifted to fundamental policy approaches to secure sustainable non-inflationary growth. (Our resistance to solving exchange market problems through intervention does not apply to our commitment to intervene if necessary to counter serious episodes of exchange market disorder in fulfillment of our IMF Article IV obligations.)

Strengthening multilateral surveillance provides a desirable alternative to expensive -- and ultimately fruitless -- exchange market intervention. The only way to obtain meaningful and lasting exchange market stability is through convergence of policies and performance.

Key points to make:

- Economic recovery underway in majority of Summit countries, led by US upturn.
- This achieved through tough monetary and fiscal discipline which has sharply reduced inflation and interest rates and created conditions for the recovery.
- Task now is to consolidate gains and secure durability of recovery on sustainable noninflationary basis. Steady non-accommodating monetary policies and reduction of structural budget deficits will foster conditions for further reduction of interest rates.
- Sustaining such durable recovery requires greater convergence of policies in Summit countries around sound non-inflationary policies, pursued in a coherent manner with constructive policies on trade, debt, and investment.
- Such greater policy convergence also needed to achieve more exchange rate stability.
- Hence useful to strengthen multilateral surveillance over policies usefully initiated by Versailles Summit.
- Propose we annex to our final statement the paper Finance Ministers sent us as our statement on how this process will be strengthened.

OVERVIEW PAPER: EAST-WEST ECONOMIC RELATIONSI. US Objectives and Initiatives

To underscore Summit consensus that the West should take account of security aspects in its consideration of East-West (E-W) economic relations.

To have Summit express satisfaction with results of work programs on E-W economic relations in various fora.

To obtain Summit agreement that work programs should continue and be built upon.

II. Background and Pre-Summit Preparation

During preparation of the Summit, we stressed your strong interest in getting concrete results from the E-W economic relations work program, which stemmed from the La Sapiniere and "Summary of Conclusions" exercises. With the conclusion of the first phase in this effort, we stated at the final preparatory meeting your satisfaction with the progress to date and stressed that you would want a brief but substantive discussion at Williamsburg. Following summarizes where we stand in each work program.

Within the framework of a broader energy requirements study, IEA and OECD Ministers agreed in early May "that existing gas contracts are currently insufficient to cover expected gas demands by the mid-1990s, and that in filling this gap steps should be taken to ensure that no one producer is in a position to exercise monopoly power over their countries." Ministers emphasized the need to avoid "undue dependence" on any one supplier and undertook commitments to accelerate secure alternatives, with emphasis on OECD indigenous resources. They also agreed to strengthen their security measures to reduce vulnerability and undertook to keep the gas issue under careful review. These actions, in our view, effectively preclude the development of a Soviet Siberian second strand pipeline and represent a major step forward in building a consensus with the Allies to avoid greater dependency on Soviet energy.

The first phase of the NATO economic study effort, approved by the Economic Committee, is complete and we obtained all our essential objectives. The next step is inclusion of satisfactory language in the NATO Ministerial Communique in early June. There are some signs the French may be difficult on this and we may need high level contacts before the NATO Ministerial to get agreement on satisfactory communique

language. While we cannot directly raise the NATO study at the Summit because of Japanese participation, we can, in the general discussion on the security aspects of E-W economic relations, help establish consensus on the concepts which we are seeking to put in the NATO Communique.

There has also been good progress in obtaining agreement to most of our immediate COCOM objectives. However, implementation will require sustained efforts. We attach special importance to accelerating the pace of ongoing List Review negotiations, especially in the priority technology areas. On the other high technology studies, we have two objectives: early agreement on a permanent inventory or watch list for monitoring emerging technologies of potential military significance, and early completion of the study on correcting deficiencies in the embargo for oil and gas items of security concern. Our other priority goals are: assuring real results from the September meeting of the Export Control Subcommittee in dealing with enforcement and harmonization issues, particularly the serious problem of third country diversions of COCOM-controlled items; and upgrading the COCOM Secretariat. In addition, we are continuing to urge support of our proposal to involve Defense experts more directly in COCOM work by creating a Subcommittee of Defense Experts, but prospects are not bright.

The OECD Ministerial approved satisfactory language on E-W and an ongoing work program. We now need to ensure useful work continues to keep economic aspects of E-W economic relationships under continuing review in OECD. This includes further refining our analysis of East European trade practices used to exploit their monopsony position; examination of the possibility of an OECD agreement on countertrade; and analysis of East European practices in the service sector to determine how we might assure the appropriate balance of advantages. We also wish to intensify our exchange of data and information, especially to assure an up-to-date common data base on E-W trade and financial flows.

Only the effort to obtain an improved OECD Export Credit Arrangement, an effort going well beyond purely E-W concerns, is bogged down over disagreements on the general use of export credit subsidies in international trade. While negotiations continue, the USSR is charged 12.4% interest on credits from high-interest rate countries, so we are not in a hurry. The current Arrangement has been extended to July 1 to permit further talks.

Our position in discussion of these issues at the Summit preparatory process has been made clear in communications among the President, Secretary Shultz, and foreign leaders, namely

that we do not see the need for extended or detailed discussions on E-W or major focus in the joint statement providing the work is going as well as it appears to be.

III. Other Country Attitudes Towards US Objectives

Our Summit partners, particularly France and FRG, are anxious that E-W economic relations not be a major topic for Summit discussion. France has indicated that it will not go along with any effort to have the Summit issue "Summary of Conclusions" type principles governing E-W economic relations. The FRG, UK, and EC Commission may well raise European concerns on the Export Administration Act. The lineup on major issues is as follows:

Energy: All Summit partners, including France, have endorsed the satisfactory policy conclusions of the IEA energy study on gas dependence.

COCOM: Despite agreement in the areas listed above, no Summit partners favor adding non-military related oil and gas equipment to the COCOM list, although there seems to be some flexibility on oil and gas related technology. They have agreed to study the embargo list for possible loopholes in this area which might need to be filled. France is the only holdout on agreeing to a permanent inventory (watch list) on emerging technologies. Our Summit partners have rejected our proposal to create a COCOM Subcommittee of Defense Experts.

NATO: Japan has made it clear it does not feel bound by the NATO study, although it has been kept very closely informed and has not indicated any important problems with it. France and, to a lesser extent, the FRG have been most prone to water down NATO language, but have gone along with the study. The North Atlantic Council has approved the study, which now goes to Ministers. The French Perm Rep at NATO has, however, expressed a negative view about conclusions regarding E-W economic relations being included in the NATO Ministerial Communique.

OECD: France has been the most opposed to tightening the Export Credit Arrangement to reduce cover and bring interest rates in line with the market, although a number of other EC members are also putting up resistance. In the OECD "ex post" monitoring exercise, France was the most reluctant to go along with meaningful E-W language, but finally agreed.

IV. Discussion of Objectives

1. Underscore Summit consensus that West should consider security aspects in its consideration of E-W economic relations.

Our whole effort has been aimed at building a consensus around the idea that the West must consider security concerns in formulating national and multilateral policies on E-W economic relations. This is the point you have been making to our Allies since the Ottawa Summit. Discussions of the last year have produced agreement on this point. It is the logical basis for expressing satisfaction at the progress of our E-W studies and urging their continuation. While France will not agree to a general statement that appears to recreate the "Summary of Conclusions" of last November, which they publicly rejected, we should seek consensus in the private discussions on the following points:

-- Economic relations with the East must be consistent with and support our shared security interests.

-- Relations should be based on a balance of economic advantage that avoids preferential treatment of the USSR.

-- Since USSR seeks to use E-W trade to enhance its military strength and strategic position, we should continue our efforts in appropriate fora to ensure that E-W trade does not contribute to its military capabilities or strategic advantage.

-- We recognize that mutually advantageous trade on commercially sound terms contributes to constructive E-W relations, but these relations must be consistent with broad security concerns and we need to give continuing attention to the security implications of E-W economic relations.

-- We should not permit undue energy dependence on the East, but encourage development of secure supplies, including particularly indigenous Western supplies.

-- The joint statement should record our agreement that we recognize and will consider the security aspects in our approach to E-W economic relations.

2. Have the Summit express satisfaction with and endorse the results of work programs on E-W economic relations in various fora.

Although we would be unable to obtain a Summit declaration of principles governing E-W trade, we should seek to have the Summit bless the significant results achieved so far in COCOM, NATO and the OECD/IEA. Language expressing satisfaction with the studies' progress and results could be inserted in the Summit joint statement. Agreement of Summit leaders to this step should follow general discussion of E-W economic relations.

-- We are gratified at the progress of studies in NATO, OECD/IEA and COCOM.

-- It is important that we recognize this, and express satisfaction at our accomplishments thus far.

-- The joint statement should express satisfaction with progress on the work programs we have undertaken this spring in various fora.

-- We attach special importance to early completion of the work program agreed at COCOM.

3. We should try to obtain Summit agreement that work programs should continue and be built upon.

Since the various E-W studies will not have accomplished their full purpose unless they result in continued work, it will be very important to obtain Summit recognition that efforts in NATO, the OECD/IEA and COCOM must continue. France, for example, has indicated it will not agree to a continued high level effort in NATO unless NATO Ministers agree in June to authorize such a follow-up. We will therefore want language in the Summit joint statement indicating the Heads support such continuation and building on the E-W studies in all three fora.

-- While we have made good progress in our analysis of E-W economic relations, we must complete ongoing work as agreed and carry on with the analyses.

-- Without presuming to instruct international organizations with broader membership than this group, we should indicate the value we place in their efforts.

-- Suggest we include general reference in our joint statement to the need to continue and build upon the work we have initiated and pursue our multilateral analysis of E-W economic relations in appropriate institutions.

-- We can then work in individual fora in which we participate to advance the solid work we have begun so well.

THEMES PAPER

I. SUMMARY INTRODUCTION

This is a time of real improvement in economic circumstances. Recovery is underway, and this fact increases our mutual confidence that it will soon spread to all countries, industrial and developing. The challenge is to ensure that this recovery endures and reverses a decade of cumulative inflation and unemployment. In this effort, we are mindful of the basic interrelationships that link our economies and the world economic system:

-- The link between sustainable domestic growth and the open trading system.

-- The link between convergence of domestic policies towards non-inflationary sustainable growth and greater exchange rate stability.

-- The link between open markets and the availability of financing.

-- The link between international economic cooperation and world progress.

To meet the challenge of an enduring recovery for ourselves and future generations requires steady and purposeful action over both the short and longer term, across a range of policies that exploit and reinforce these interrelationships.

-- Promoting conditions for growth, employment and job creation, structural adjustment, and acceptance of technological development.

-- Maintaining the fight against inflation with the objective of achieving lower interest rates and more stable exchange rates while intensifying consultations on economic policies and market conditions.

-- Supporting the international financial system and strengthening world economic cooperation and institutions.

-- Reversing protectionism and beginning to work to achieve further trade liberalization.

-- Recognizing that prosperity is more than material gain, but also reflects our basic shared values of political freedom, economic opportunity, cultural creativity, and human dignity, and contributes to the defense of these values which also guide our economic and other relations with Eastern countries.

II. ASSESSMENT: REALISTIC OPTIMISM

Improvements are undeniable:

- Major successes have been achieved in reducing inflation.
- Interest rates have been significantly reduced.
- Productivity increases are being registered.
- Some successes in controlling budget expenditures are being achieved.
- Consensus exists to reduce inflation and unemployment on the basis of sustainable growth promoting policy convergence, further reduction of interest rates and greater stability of exchange rates.
- Measures to reduce dependence on oil have helped to bring about a decline in oil prices.
- Recovery in our countries spreading to others will help ensure the revival of world trade and easing of the debt burden of many developing countries.

However, unemployment, especially among young people, remains intolerably high and continues to increase in some countries. It can be brought down only if an enduring recovery is achieved. Serious problems remain which, if untended, will endanger the prospect of an enduring recovery.

- Differences in inflation among countries remain too great.
- Inflationary expectations, together with unacceptably high current and future budget deficits and the possibility of excessive and volatile monetary growth, keep interest rates too high, threatening to inhibit investment and recovery and producing distortions and volatility in exchange rates.
- Protectionist pressures threaten our open trade and financial system and prospects for recovery in both industrial and developing countries.
- Conditions in many developing countries remain much more acute than in our own; in many of them, unprecedented international debt burdens, exacerbated by high interest rates and low commodity prices, continue to constrain trade and, even in some cases, to threaten financial and related political stability and create human hardship.

III. COMMON APPROACH TO A SUSTAINED RECOVERY

No single country, policy or immediate action can ensure a quick or sustained recovery. Success requires a common approach involving actions taken now across a broad range of policy areas, anchored within a framework of longer-term policy goals and decisions.

Actions Now:

- Enhance the intensive consultation process initiated at Versailles to promote convergence of economic conditions in key currency countries and thereby contribute to greater exchange rate stability.
- Develop cooperative consultations on policies and exchange market conditions and, while retaining the freedom to operate independently, be willing to intervene in exchange markets in a coordinated manner in instances where we agree such intervention would be helpful.
- Encourage governments to reduce excessive budget deficits, especially by reducing expenditures, thereby lowering inflationary expectations and high interest rates.
- Pursue appropriate non-inflationary growth of monetary aggregates to achieve and maintain low inflation and interest rates.
- Halt and reverse protectionism and make use of favorable conditions provided by recovery progressively to relax and dismantle trade barriers and trade-distorting domestic measures, including those related to trade in high technology products.
- Give new impetus to resolve current problems in agricultural trade, conflicts of jurisdiction and the need to achieve a safeguard agreement (by October 1983) as mandated by the GATT Ministerial.
- Agree to press forward with the GATT work program on trade in services.
- Begin work now to achieve further trade liberalization in the GATT, focusing particularly on trade with and among the developing countries, and on their ability to export and so to service their debt.

- Secure early ratification of the increase in IMF and GAB resources and provide interim financing as appropriate.
- Reaffirm commitments to provide agreed funding levels for IDA and the other multilateral development banks.
- Continue with agreed strategy, and strengthen cooperation, for managing current debt problems, including effective adjustment, adequate private and official financing, and sustained, non-inflationary recovery in industrial countries.
- Welcome openness to dialogue expressed by developing countries at New Delhi and Buenos Aires conferences and engage constructively in UNCTAD VI, emphasizing our program for a durable recovery and practical proposals to manage debt problems, facilitate adjustment, promote trade, revive commodity markets, encourage more private investment in, and official assistance for, developing countries and strengthen the dialogue with developing countries in appropriate fora.
- Agree to consult among each other and with other countries to address interrelationships among growth, trade, and finance in the world economy and to encourage better coordination among international economic institutions.
- Implement agreed conclusions for early action reflected in the results of work programs on East-West economic relations. (Identify significant results of pre-Summit meetings.)

IV. LONGER-TERM POLICY GOALS AND DECISIONS

- Sustain fight against inflation and structural budget deficits to encourage a higher level of investment and new job creation.
- Pursue the consultative arrangement agreed at Versailles to promote economic convergence toward low inflation and sustained growth and thereby achieve greater exchange rate stability, continuing with our agreement on exchange market intervention, in the context of an open trading, investment and financial system.
- Invite Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this high level international monetary conference.

-- Promote technological development and trade, including their public acceptance, and in particular the implementation of the specific projects included in the program for cooperation initiated at Versailles.

-- Promote structural adjustment and its public acceptance, in order to enhance competition and the flexibility of markets and to improve the allocation of resources, by all appropriate means including revitalization of training and the encouragement of mobility.

-- Invite Ministers of Trade, in consultation with the Director General of the GATT, to define the conditions for improving the open multilateral trading system, including trade between developed and developing countries, and to consider the possibility of more frequent Ministerial meetings in the GATT to maintain urgency in this process.

-- Examine ways to improve the effectiveness of the development process and structural adjustment by assuring non-inflationary flows of public and private finance and investment to the developing countries, with special attention to an adequate flow of resources to the poorer countries, both bilaterally and through IDA, the IBRD and similar institutions.

-- Continue efforts to conserve energy and develop economic alternative energy resources so as to ensure Western energy security and enhance energy production in developing countries.

-- Find practical ways to promote increasing food production in developing countries.

-- Work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes (e.g., acid rain).

-- Promote cooperation in the development of human resources, including education and training and the improvement of health.

-- Continue work in appropriate existing fora to develop agreed analysis of our economic relations with the East, with attention to our shared security concerns, and on this basis pursue independent policy actions consistent with agreed principles and common analysis reflecting the fact that these relations should be compatible with the basic values and security concerns of Western countries.

DRAFT STATEMENT

Strengthening Monetary Cooperation for Stability and Growth

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving noninflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic conditions, in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures as agreed at Versailles, through the following approach:

A. We are focusing on nearer-term policy actions leading to convergence of economic conditions in the medium-term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets.

B. In accordance with the mandate given to us at Versailles, we are focusing our attention on issues in the monetary

and financial fields including interaction with policies in other areas. We shall take fully into account the international implications of our own policy decisions. Policies and targets that will be kept under review include:

(1) Monetary Policy. Disciplined noninflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates.

(2) Fiscal Policy. Discipline over government expenditures, particularly transfer payments. We will aim to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, and accommodating continued structural adjustment, especially by:

-- Enhancing flexibility and openness of economies and financial markets.

-- Encouraging research and development as well as profitability and productive investment.

-- Continued efforts in each country, and

improved international cooperation, where appropriate, on structural adjustment measures (e.g. regional, sectoral, energy policies).

IV. We shall continue to assess together regularly in this framework the progress we are making, consider any corrective action which may be necessary from time to time, and react promptly to significant changes.

SECRET

WILLIAMSBURG SUMMIT POSITIONS

	UNITED STATES	WEST GERMANY	FRANCE	UNITED KINGDOM	ITALY	JAPAN	CANADA
<u>DEBT AND FINANCE</u>	Wants increased IMF resources and temporary "bridge loans"; solutions to LDC problems, however, lie in (1) private bank lending to countries adopting sound adjustment policies, (2) Western economic recovery, and (3) maintaining open markets to LDC products.	Will resist new solutions to LDC debt problems; long-term rescheduling with LDCs should proceed on case-by-case basis. Will encourage export earnings stabilization fund for LDCs.	Wants more resources for IMF and IBRD and closer cooperation between them. Special effort required for neediest LDCs, especially Africa. Supports action to stabilize raw materials prices. Will argue that stronger aid programs, featuring multi-year commitments, are not only moral imperative but support Western economic recovery.	Recognizes need for action to correct LDC debt problems; should support US proposals. Sees reducing US deficit as a means of spurring Third World growth. Will support increased market access for LDC products.	Wants assurance of minimum net credit flows, especially through multilateral agencies (IDA, IMF) including the possibility of subsidized interest rates on new loans. Supports bridging loans and wants greater attention to balance of payments and external debt problems of LDCs. Endorses commodity revenue stabilization programs to alleviate debt problems.	MITI studying possible changes in international financial institutions. Government insists official aid must accompany increased trade if LDC debt problems are to be solved, but aides doubt Nakasone will push idea of \$500 billion Global Investment Fund. On recent ASEAN trip, Nakasone promised to take "message of South" to Summit.	Will seek \$82 billion in funds -- \$20 billion from private bank loans and the rest from the IMF -- to prevent LDC bankruptcies. Opposes major overhaul of international finance system. May again criticize US for not contributing its fair share toward international development.
<u>GROWTH/INFLATION</u>	Noninflationary growth -- low inflation, low interest rates, and low budget deficits; one country alone cannot serve as "locomotive"; follow up multilateral surveillance as agreed at Versailles, aimed at greater exchange rate stability and periodic evaluations of each country's economic policies.	Primary focus should be clarification of overall growth strategy; will resist detailed plans to adjust country policies and opposes US multilateral surveillance suggestions. US budget needs immediate reduction. Strongly opposes French ideas on intervention and a new Bretton Woods.	Acknowledges need to fight inflation but fears recovery will sputter out in absence of coordinated Western strategy to promote growth. Advocates carefully prepared, IMF-sponsored conference to revamp international monetary system. Wants coordinated intervention along lines of Versailles-mandated report. Sees current strong dollar as hurting efforts to reduce BOP deficit.	Believes primary Summit objective is agreement on cooperative economic policies. Will not welcome suggestions that British pursue more deflationary posture to quicken recovery. Will express concern about US budget deficit and interest rates. Favors IMF reform but opposes French calls for new Bretton Woods to revamp exchange rate system.	Supports multilateral surveillance system as agreed at Versailles; wants more expansionary policies in countries such as US where inflation has moderated. Will support push for greater exchange market intervention to smooth erratic short-run currency fluctuations. Sees need for increased technological cooperation.	Believes path to noninflationary growth will be main Summit topic. Fearful of pressure on Japan to reflate. May try to rally support for coordinated exchange rate intervention. Tokyo supports US proposal for multilateral surveillance system, but Ministry of Finance favors limiting to G-5.	Believes primary objective should be ensuring strong and lasting global recovery through the coordination of economic policies. Will caution that needs of LDCs must be kept in mind. Is likely to criticize US for high real interest rates.
<u>TPAE</u>	Proposes unified stand against protectionism; more interchange between trade and finance policymakers; and more frequent meetings of trade officials, including GATT ministerials, looking toward eventual trade negotiations with LDCs.	Wants general commitment from Seven to lower trade barriers. US-EC dispute will have to be addressed. Will resist detailed discussion of North-South issues.	Agrees with general dangers of protectionism. Will emphasize need for LDC access to markets but sees protectionism affecting LDC earnings much less than slow growth, insufficient aid, low commodity prices, and rise in interest rates. May argue need for rules of conduct on industrial policy and strategies.	Will support stand against protectionism; will urge liberalization of trade in services and reductions in barriers to British goods but refuses to reduce subsidies to British industry. Willing to discuss North-South trade but wants reciprocity. Concerned about growing differences on farm subsidies between EC and US.	Opposes protectionism generally but may endorse import measures in exceptional circumstances. Supports US objectives in North-South round of trade negotiations. Wants more interchange between trade and finance officials at all levels and more frequent GATT ministerials and meetings of summit country trade ministers.	Generally supports call for 1985 GATT ministerial. Foreign Ministry opposes establishment of Summit country ministerial group to discuss trade issues on regular basis.	Has stated that free trade is the keystone of economic recovery and will call for the removal of temporary protectionist measures installed during the period of recession. However, will continue to pursue own nationalistic economic policies.
<u>FAST-WEST</u>	Desires agreement that trade with East not like trade among Western partners; wants discussion on security implications of East-West economic relations; seeks statements hoping for concrete results from the series of East-West studies in OECD, IEA, COCOM, and NATO welcoming these results at Summit, and urging further efforts.	Supports East-West trade. Considers US plans for expanding COCOM list too far-reaching; will agree to include only direct military items. If compromise unavoidable, is more likely to accept US views on COCOM than on East-West trade.	Strongly supports East-West trade in industrial goods. Favors tough measures to prevent illegal Soviet acquisition of military technology but will insist on reserving final decisions for national level. Also defines military technology more narrowly than US.	Regards extraterritoriality as key problem between the US and Britain. Sees Soviet trade as necessary to survival of some British firms and to improve trade balance. Hopes for conciliatory US stance but is open to tighten COCOM controls on high technology items. Will urge completion of East-West trade studies.	Generally sees East-West trade as beneficial to both sides. Believes high technology trade should be subject to tighter controls and Soviets denied subsidized interest rates; favors coordinated system of trade guidelines that serves common security interests while preserving trade levels.	Foreign Ministry contends US attaching excessive importance to East-West economic relations. Bureaucracy has warned Nakasone that Japan is "vulnerable" on Soviet trade issue. Tokyo likely to adopt low profile during East-West discussions to avoid siding with Washington or EC.	Wishes to keep East-West issues quiet. Does not believe that economic pressure on the Soviet Union is effective but does support restrictions on exports of sensitive technology. May push for greater US-USSR dialogue. Is pleased with progress of East-West trade studies.

SECRET

PUBLIC OPINION ON SOME WILLIAMSBURG SUMMIT ISSUES

USIA-commissioned national public opinion surveys taken during April in the participating countries, except Canada, show:

THE INTERNATIONAL ECONOMIC SITUATION

PUBLIC CONCERNS: Pessimism Abounds.

Everywhere, majorities consider their country to be in poor economic health. The figures for Italy (89%), France (80%) and Japan (67%) are particularly striking.

Jobs, by far, rank as the biggest economic concern in Europe. And large majorities foresee no appreciable drop in unemployment in the coming year.

Expectations for economic growth are predominantly bleak, except in Britain. There a plurality expects it to be higher a year from now.

Overwhelmingly, deficits are considered a serious problem. Only in France, however, does prevailing opinion endorse reducing government deficits at the expense of cuts in social welfare benefits.

PROBLEMS FOR THE U.S.: U.S. Premises Questioned

Recognition of the ongoing U.S. recovery lags. The West German and Japanese publics predominantly perceive the U.S. economy as ailing. British as well as French opinion is divided.

Outside of Italy, Europeans tend to lack confidence in wise U.S. leadership to solve global economic problems. Significantly, in Japan confidence prevails.

Only in Japan and in Britain, the U.S. is largely seen as cooperative in solving bilateral economic problems. Elsewhere, the opposite image exists. Moreover, in all countries U.S. economic policies tend to be perceived as more harmful than helpful to their own country.

OPPORTUNITY FOR THE U.S.: Fertile Soil for Economic Cooperation

Very large majorities believe their economic health depends on the state of the U.S. economy.

TRADE

PUBLIC CONCERNS: Imports Are Evil.

By very substantial margins, European publics view imports as costing jobs rather than reducing domestic prices. In fact, competition from imports is seen as the first or second leading cause of current unemployment.

PROBLEMS FOR THE U.S.: Some Obstacles to Free Trade

Italians excepted, publics perceive the U.S. as impeding their country's sales of manufactured products to the U.S. market. Still Japan is considered much more culpable on this score.

West European public opinion decisively favors agricultural subsidies to prevent sales losses of their farm products abroad. And except in Britain, the U.S. is perceived as uncooperative on such sales to third countries.

The link between their own prosperity and the economic well-being of developing countries is widely recognized. Only one in 10, however, sees industrial world trade barriers as a major cause for the poorer countries' economic plight.

OPPORTUNITIES FOR U.S.: Protectionism Rejected

Public opinion everywhere widely endorses free trade principles over restrictive practices.

Contrary to their own preferences, the Japanese predominantly see their own government as favoring trade restrictions.

Some three Japanese in four agree that liberalizing agricultural imports would lower food prices. The public also favors liberalization but by a much narrower margin because of concern for Japanese farmers.

EAST-WEST ECONOMIC RELATIONS

PROBLEMS FOR U.S.: Divergent Assumptions

With respect to Soviet trade, the interests of their own country and those of the U.S. are widely perceived as dissimilar. In keeping with these perceptions, the U.S. is generally considered uncooperative on Soviet trade.

Outside of France, West Europeans clearly believe that more trade with the Soviet Union will reduce East-West tensions rather than increase their vulnerability to Soviet political pressure. The French are divided and uncertain about this.

On selling advanced technology to the Soviet Union, opinion is mixed. The Japanese and British public tend to favor restrictions, Italians tend to oppose them and the French and Germans are split on the issue.

OPPORTUNITY FOR THE U.S.: Little Support for Going It Alone

Sentiment for coordinating Soviet trade policy with the U.S. over making separate deals prevails everywhere, except in Italy. Public support for coordinated policies, even at the risk of losing some trade, is particularly pronounced in Japan.