WHORM Subject File Code: FO006-01
(Foreign Affairs: Economic Summit, Ottawa, Canada, 07/19/1981-07/20/1981)
Case file Number(s): 018699 (2 of 4)
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File Folder	FO006-01 (018699) (2 OF 4)	***FOIA***	F16-011 BIERGANNS
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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243456	MEMO	ALEXANDER HAIG TO THE PRESIDENT, RE: YOUR MEETING WITH ITALIAN PRIME MINISTER GIOVANNI SPADOLINI IN OTTAWA	7	ND	B1
243457	MEMO	ALEXANDER HAIG TO THE PRESIDENT, RE: BILATERAL MEETING WITH PRIME MINISTER SUZUKI	4	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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B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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III.(B)--4)
ITALY

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III.(B)--5)
JAPAN

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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
243457	MEMO ALEXANDER HAIG TO THE PRESIDENT, RE: BILATERAL MEETING WITH PRIME MINISTER SUZUKI	4	ND	B1

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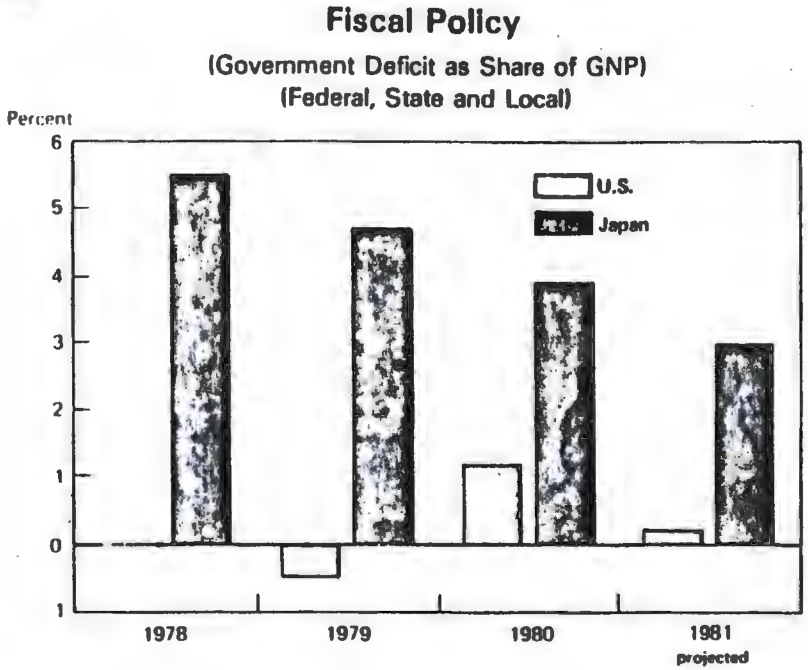
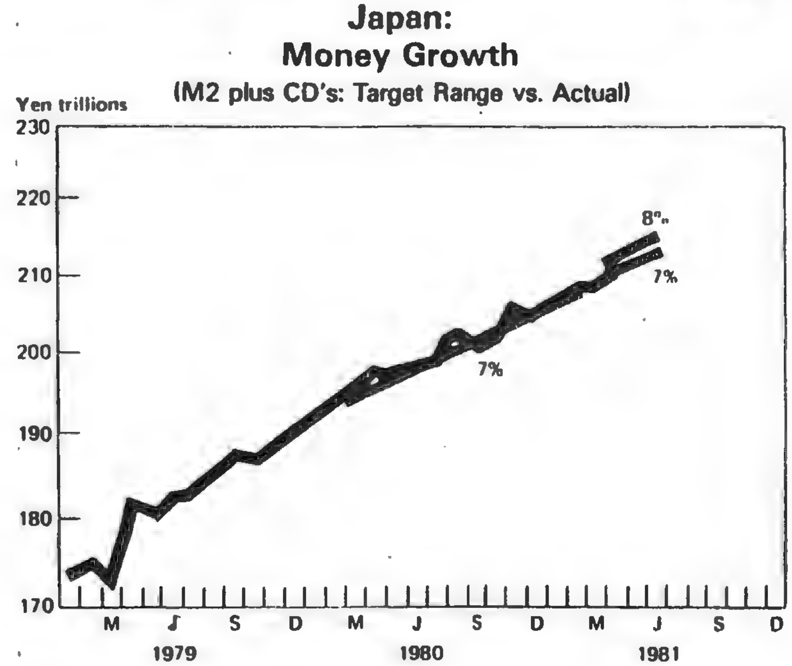
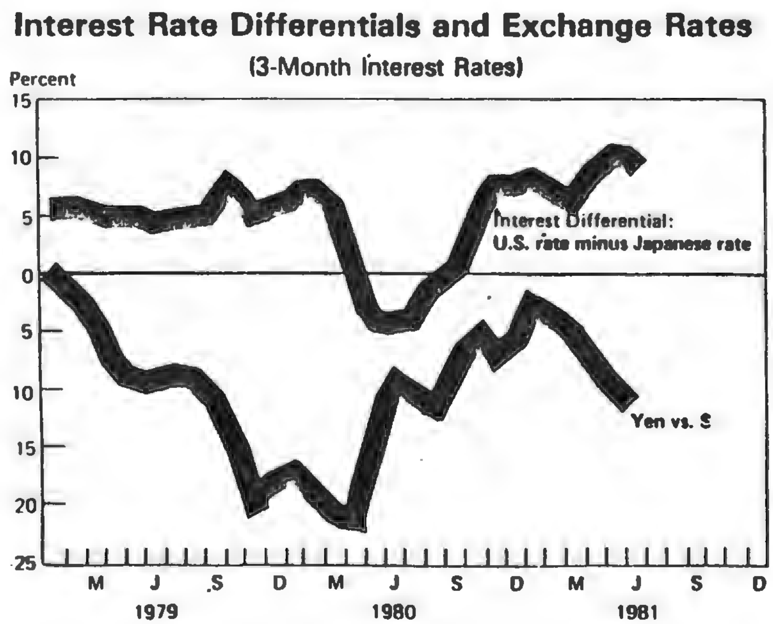
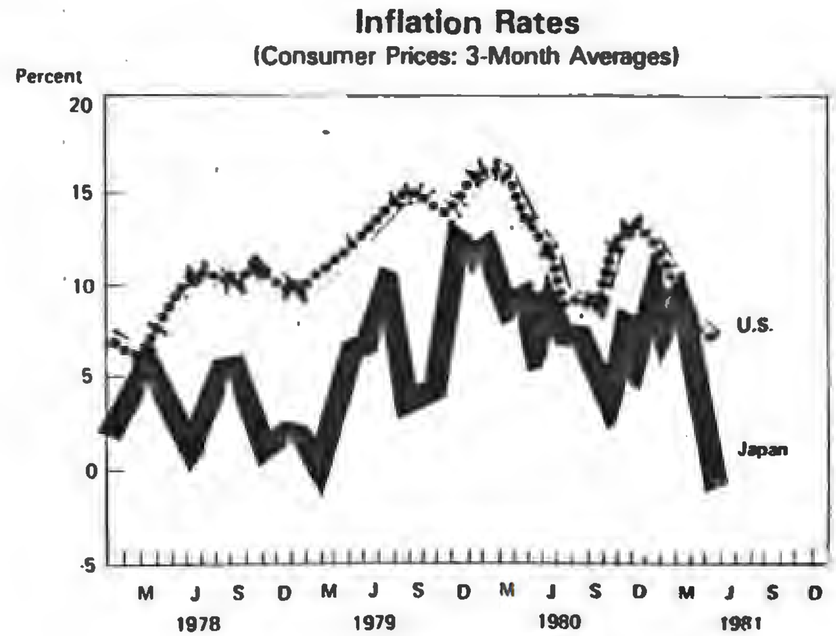
Japan: Selected Economic Indicators









Points to be made with regard to the foregoing chart:

- -- Point to the relatively successful economic policy situation in Japan, while possibly encouraging some effort to improve interest rate and currency relationships further:
  - -- Japanese inflation has eased dramatically in recent months;
  - -- The fiscal deficit is declining as a proportion of GNP, but is still very high;
  - -- The money supply is on target and interest rates have declined;
  - -- After depreciating in 1979, the yen has improved since mid-1980.

III.(C)--1)a)i) INTEREST RATES

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INTEREST RATES

Criticism: High U.S. interest rates are driving European currencies down, forcing undue European monetary tightness and increasing European import costs (especially oil).

Response:

1. Interest rates are one factor, but only one. Ample evidence European problems -- large budget deficits, rising inflation, rapid money growth in some cases -- are largely home grown.

2. U.S. does not want high interest rates and is not using them as a policy tool. They hurt our economy. They are a product of past inflation.

3. Our aim is low interest rates. Record is clear: slow money growth brings low inflation and low interest rates.

Facts: The claim that interest rates dominated the exchange markets is simply wrong. They have been an important factor at times. But:

The relationship between U.S. interest rates and both French and German interest rates is about the same now as it was in the Spring of 1980. The market exchange rates are now down about 25 percent against the dollar. In both countries, the inflation rate is worse. The Germans' 1980 current accounts deficit was unprecedented and is expected to decrease only marginally in 1981. There was great capital flight from France associated with the change in government.

On the other hand, Japanese interest rates have stayed relatively low and are around 7 percent with the U.S. interest rates at almost 18 percent. The Yen, however, has not declined much from where it was a year ago. The Japanese case is improving underlying economic conditions. Their current account deficit is expected to shift from a $10.8 billion deficit in 1980 to a rough balance in 1981. This accounts for the stability of the Yen and demonstrates that interest rates don't directly drive exchange rates.

U.S. and U.K. interest rates bear the same relationship to each other that they did last fall but Sterling has still fallen 25 percent against the dollar.

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iii.(C)--1)a)ii)
EXCHANGE RATES

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EXCHANGE RATES

Criticism: U.S. should intervene in exchange markets to curb the rise of the dollar and insulate European economies from the impact of high U.S. interest rates.

Response:

1. Interest rates only one factor. European economic performance more important.

2. Our philosophy is to rely on markets. Exchange markets broad and efficient and intervention can't affect them fundamentally.

3. Intervention may even be destabilizing in some cases, and we do not believe intervention should be used to shield against the need for basic policy adjustments.

4. Prepared to intervene to counter serious disorder, but minimal. Not prepared to intervene to try to fix or manage rates.

5. Wants stability, but that requires underlying stability in U.S. and major foreign countries.

Facts: Differences in fundamental economic conditions between the U.S. and Europe are behind recent exchange market developments. Nothing short of massive intervention could stabilize rates, and even that would do so only temporarily. Such action would be costly and would ultimately fail.

The only thing that will provide for permanent exchange market stability is stable, non-inflationary growth by the U.S. and European economies.

What is frequently overlooked by the Europeans is the fact that the recent appreciation of the dollar and depreciation of their currencies is in part a correction from earlier periods when the dollar was particularly weak due to lack of confidence in U.S. economic policies and poor economic performance. In October 1978, for example, the dollar was under heavy pressure and depreciated to historic lows against some of the other major currencies; that the dollar would rebound from that low was only to be expected, particularly given the improved outlook for the U.S. economy.

Compared to the dollar's value as of March 1973 -- when we went to flexible exchange rates -- the dollar is still "down". In spite of the recent dollar appreciation, for example, the dollar is still 35 percent below its value relative to the Swiss Franc as of March 1973 and 13 percent below its value relative to the German Mark and Japanese Yen.

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III.(C)1)a)iii
FISCAL POLICY

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BY dlr NARA DATE 10/31/2019

FISCAL POLICY

Criticism: The U.S. is putting too much reliance on monetary policy. The tax cuts should be postponed.

Responses:

1. U.S. public sector and budget deficit are the smallest (relative to GNP) among the Summit countries.

2. Committed to eliminating the deficit by 1984. Meanwhile, we are reducing the deficit.

3. The tax cuts are essential to encourage work, saving and capital formation.

4. Delaying action on the cuts for the sake of balancing the budget a year or two earlier would undermine entire recovery program and would be short-sighted.

Facts:

The government sector in the U.S. (all levels of government) amounts to about 32 percent of GNP (1981 estimate), about the same as in Japan. The government sector in the other Summit countries ranges from 43 to 48 percent of GNP (excluding direct subsidies to nationalized enterprises).

The total government deficit in the U.S. (1981 estimate) will amount to only 0.2 percent of GNP, compared to a range of 1.7 percent to 4.5 percent in the other Summit countries -- disregarding Italy's extreme 8.1 percent.

In absolute dollar terms, the total government deficit in the U.S. will amount to only $6.2 billion. Canada's, at $4.6 billion, is slightly smaller, but the deficits in the other countries range from $9.9 billion to $33.4 billion. Relative to the size of respective economies and capital markets, the U.S. deficit is minimal; all of the others' represent a very considerable claim on their economic systems and capital markets.

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III.(C)--1)b)i) US-JAPAN AUTO
AGREEMENT

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CONF~~ID~~ENTIAL

U.S.-JAPAN AUTOMOBILE AGREEMENT

Criticism: The U.S. sought Japan's agreement to restrain automobile exports at the expense of Japan's other industrialized trading partners. Japanese export restraints risked harmful trade diversion to the EC market and violated the safeguard provisions of the GATT.

Response:

1. Despite the high level of market penetration in our automobile sector, we sought only a two-year break while our industry undertook a massive retooling program.

2. The Japanese restraint is limited in scope and duration.

3. The Japanese action defused Congressional efforts to impose deeper, more rigid quotas which would have been more harmful to the trading system and our economies.

4. Japan has reassured the U.S. and other governments that significant trade diversion will not occur.

Facts: Japan will reduce its automobile exports to the U.S. by 7.7 percent during the period April 1981-March 1982. Its auto exports will be able to grow in the following 12 months by a percentage of any growth in total U.S. auto demand. The Japanese will decide whether a third year of restraint is needed based on our industry's economic recovery. The U.S. auto companies have begun a $76 billion retooling program to make their products competitive by 1985, and are working with the UAW to increase productivity, cut costs, and hold the line on prices.

The U.S. companies' sales fell about 20 percent last year, and unemployment among the automakers and supplying industries probably hit about 1,000,000 workers. Although the U.S. International Trade Commission found last year that imports were not a substantial cause of these troubles, Congressional pressure convinced Japan that a cooperative gesture was needed.

Japan has also agreed to observe restraints regarding the Canadian, West German, and Belgian markets. Britain, France, and Italy have for some time had far tighter limits on Japanese auto imports (Britain - 11 percent; France - 3 percent; Italy - 2,400 cars). While Japan's auto shipments to the EC grew rapidly in 1980, they still were less than half the number shipped to the U.S., and the Japanese share of the total EC auto market reached only 8 percent, vs. 21 percent in the U.S.

CONFI~~D~~ENTIAL

III.(C)--1)b)ii)
EC-JAPAN RELATIONS

EC-JAPAN RELATIONS

Criticism: The Europeans will accuse Japan of "irresponsible" trading behavior and call for restraint on export "surges in sensitive sectors." Japan will reply by asking for an end to European discrimination against Japan and by inviting European business to do a better job in exporting to Japan.

Response:

1. Bad trade relations between Europe and Japan affect all of us. Any resort to protectionist actions will increase pressure in the United States for protectionist policies.

2. However, we share some of the frustration Europeans feel about the difficulties in selling in the Japanese market and urge Japan to actually start importing more from the rest of us. We are also concerned about overly rapid penetration of our market in sectors which, until only a few years ago, Japan protected from foreign competition.

3. I urge Europe to avoid resorting to a restrictive approach to this problem.

4. (If the Europeans propose a trilateral group (US, EC, Japan) to discuss trade problems -- I believe it is inappropriate to work through such a group until a new set of trade liberalization talks are underway.)

Facts: Relations between the EC and Japan are in very bad shape. The Europeans see the Japanese as predatory and relentless traders, who keep their home market closed while attacking European markets in cars, TVs, machine tools, and other products. Japan sees Europe as protectionist, lacking in dynamism, and sinking into technological and economic decline.

Although many European countries already restrain imports from Japan (France allows Japan no more than 3% of its auto market, for example), pressure for tighter controls is growing.

III.(C)--1)b)iii)
SAFEGUARDS

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BY dk NARA DATE 10/31/2019

SAFEGUARDS

Argument: International rules governing the taking of emergency "safeguard" actions against import competition are inadequate. They should be reformed to make it easier for governments to impose temporary tariff increases or quotas to protect their industries from surging imports from particular exporting countries.

Response:

1. The GATT safeguards provisions should be strengthened We should continue trying to negotiate a new international safeguards code.

2. The lack of an acceptable safeguards code encourages unilateral restrictive trade actions and bilateral deals outside the GATT rules, which weakens the international trading system.

3. We need a safeguards agreement that enhances the discipline on governments in this area and that exposes secret inter-industry deals to international scrutiny.

4. We should try to get the safeguards negotiations going again before the GATT ministerial is held next year.

Facts: Article XIX of the GATT authorizes countries to take emergency actions against increases in imports which are injurious but not the result of unfair trade practices. Such "safeguard" actions include temporary quotas or tariff increases. Efforts to negotiate a new safeguards code during the Tokyo Round failed because of disagreement between us and the EC.

Britain and other EC members dislike the GATT requirements that safeguard actions must apply even-handedly to imports of the affected goods from all sources and that exporting countries must be offered compensation for trade lost through safeguards. The Europeans would like to relax these disciplines, to legalize unilateral actions against imports from specific countries (e.g., synthetic fiber from the U.S., machines tools from Japan). We believe the discipline on safeguards should be strengthened, to cover all safeguard-like actions (including inter-industry restraint agreements like the one between the British and Japanese auto industries) and to bar selective safeguards against single exporting countries without their consent.

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III.(C)--1)b)iv)
STEEL TRADE POLICY

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Steel Trade Policy

Criticism: EC officials may complain that the Trigger Price Mechanism (TPM) has adversely affected the competitive position of European steel exporters in the American Market.

Response:

1. The TPM has not restricted imports which are now 4.0% higher than last year.

2. EC exports have increased dramatically since the first quarter of 1981.

3. The TPM is not designed to guarantee the share of any domestic or foreign supplier in our market.

4. If the European firms believe they can sell below trigger price levels, they may apply for preclearance. Several have already done so.

5. Preclearance applications will be processed without delay.

Facts:

Under the TPM, steel mill imports from any source are subject to price monitoring. If an imported steel product is sold in the US at less than the applicable trigger price, the USG may initiate an antidumping investigation. If a foreign exporter has received preclearance, the firm may sell at less than trigger without facing the risk of an antidumping investigation.

Since early 1978, when the TPM was first implemented, it was widely acknowledged that European cost of production was generally high relative to trigger prices. Thus European firms could sell their products in the US market at a dollar price which was less than the cost of production. Essentially, we allowed the EC to dump in our market as long as they sold at or above trigger price. We tolerated this situation in order to maintain European access to US market.

During 1981 however, European currencies have depreciated about 30%. European cost of production thus is probably low relative to trigger price levels. European firms now want to sell at prices less than trigger in order to expand their declining share of the US market. This would be intolerable to the US domestic industry.

To avoid potential trade conflict, we have encouraged European firms to apply for preclearance. This procedure allows the USG to evaluate the cost structure of individual firms and to differentiate between efficient and inefficient European producers. It is preferable to altering the TPM in order to permit all EC firms to sell in the US market at prices less than trigger price levels.

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