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OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220

C.F.

018653CA

F0006-01

June 19, 1981

WS

MEMORANDUM FOR THE HONORABLE CRAIG L. FULLER  
DIRECTOR, OFFICE OF CABINET ADMINISTRATION  
THE WHITE HOUSE

Attached are Treasury comments in response to your  
staffing memo on the Japanese Paper on Trade for the  
Economic Summit.

*DC*

David Chew  
Executive Assistant  
to the Secretary

**Subject:** Japanese Paper on Trade for the Economic Summit

We understand that the June 2 version of the Japanese trade paper was discussed at the June 4-6 Vancouver meeting of Personal Representatives and that the paper will be significantly revised to take into account comments at that meeting. These should include EC language on current trade problems (the EC wants to get at the problem of Japanese exports); U.S. suggestions that the GATT Ministerial should look at MTN implementation and safeguards, while the OECD looks into longer-term issues; and stronger language on export credits, to be prepared by Japan.

The June 2 paper, therefore, is not likely to be the subject of further discussions. However Treasury has the following comments which we hope would be reflected in any future revised paper:

(1) GATT Ministerial (paragraphs 17 and 18). The Japanese paper proposes a GATT initiative to address major issues for the 1980's, including structural adjustment, investment, trade in services, agricultural trade, trade with different market systems, and Tokyo Round "leftovers" such as safeguards. A GATT Ministerial would help to get this initiative underway.

We support the idea of a GATT Ministerial in 1982, but do not believe this would be the appropriate time to launch major negotiations on new initiatives in the services and investment areas. The United States has proposed that OECD Secretary General Van Lennep undertake



a study of these and other major trade issues for the 1980's to work toward consensus first among the developed nations, with a slower pace of discussions within the GATT. The GATT Ministerial would be useful to emphasize the importance of GATT as an international institution, with an agenda that might include implementation of the Multilateral Trade Agreements and residual issues such as safeguards. It could also provide a useful focus for discussion of North-South trade issues, to avoid the risk of a political resolution of these problems in New York as part of the overall Global Negotiations.

(2) Structural Adjustment Policies (paragraphs 7 and 13).

The Japanese paper proposes that the Summit nations "effectuate structural adjustment within the context of a macro-economic approach." This may be acceptable, if read properly. However, the paper also seems to imply that governments should actively choose industrial growth sectors as a means of bringing about such adjustment.

U.S. economic policies in the domestic area, as in the international, are geared toward open markets and free competition. We do not propose to have the Government intervene to bring about structural adjustment, but instead emphasize the dismantlement of restrictions imposed by government regulations and other forms of government intervention in order to permit market forces to bring about adjustment. We should oppose any effort to have the Summit encourage government intervention (through subsidies or other measures) to increase a nation's competitive position in specific sectors. We might also wish to suggest that industrial nations (read Japan) have a special responsibility to avoid trade restraints not only at the border, but also through other internal measures. Such invisible barriers can be as effective in protecting domestic industries from foreign competition -- and distorting normal trade flows -- as tariffs or quotas.

(3) Priority of Open Trade (paragraph 22). The Japanese paper states that the determination of the summit countries to avoid a repetition of 1930's protectionism "should have priority over all domestic considerations."

While we fully agree that we must avoid a repetition of the events of the 1930's, we strongly believe that the emphasis should be placed on the fact that open markets complement and are fully consistent with our nation's domestic economic objectives, rather than that trade considerations should override domestic considerations.



(4) Export Credits (paragraph 7). The paper expresses strong hope that the ongoing negotiations on export credits will be successfully concluded.

The United States will press at the Summit for prompt and substantial progress soon.



MEMORANDUM FOR CRAIG L. FULLER  
Director  
Office of Cabinet Administration

Subject: Ottawa Summit - Japanese Paper on Trade

I appreciate the opportunity to review this latest draft of the Japanese trade paper. It expresses many views with which we can fully agree. The Government of Japan, for example, unequivocally states its strong support for an open and competitive international trading system and calls upon governments of leading industrial democracies to resist protectionist pressure. It also takes into account many of the objections we have expressed in previous reviews. It remains, however, incomplete or misdirected in some respects. In particular, we were dissatisfied with Japanese handling of "positive adjustment" (see below our changes to paragraphs 12, 13, and 14).

I offer the following comments and suggestions for textual amendments, assuming we are still in a position to request editing by the Japanese.

1. We strongly support the Japanese position in paragraph 12 that OECD and GATT deliberations on positive adjustment and structural adjustment should go forward. However, the paragraph should go on to state that the OECD "Orientations" on positive adjustment policies should be strengthened in order to minimize distortions in international trade and investment.

The following is suggested language to replace paragraph 12:  
"The positive adjustment policy and structural adjustment exercises now being carried out at the OECD and GATT should be strongly supported. In particular, the OECD "Orientations" on positive adjustment policies should be strengthened in order to provide more precise guidance to governments in avoiding actions which would distort international trade and investment."

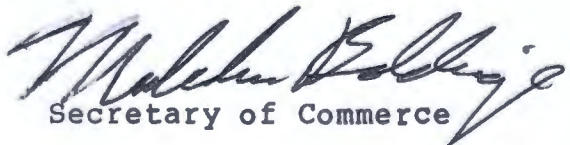
2. Paragraph 13 of the paper related, "anticipating future industrial structures and technological patterns" to successfully "realizing smooth domestic industrial adjustment." The general statement is acceptable, but it does not clarify who does the anticipating. If it is done by the private sector, then we have no problems with the statement. If it is done by the government, then we have a case of "picking winners." The language in this paragraph should be changed to clearly indicate that the role of government is to facilitate rather than direct the flow of resources. The paragraph should emphasize our support of positive adjustment and caution that the government role in this regard must not create trade and investment distortions.



The following is suggested language to replace paragraph 13:  
"Anticipating future industrial structures and technological patterns plays an important role in realizing smooth domestic structural adjustment. Investment in growing industries, expanding research and development, pursuit of technological innovation, raising productivity, and improving competitiveness are all essential ingredients for such structural adjustment. In line with the OECD "Orientations" on positive adjustment policies, the proper role of government is to facilitate, rather than direct, the flow of resources to the 'industries of the future.' Great care must be taken that well-intentioned government policies do not create trade and investment distortions".


3. Paragraph 14 also expresses views which we believe lead to market distortions. The paragraph calls for "industrial cooperation among developed countries" in order to bridge the gaps among countries in adjusting to structural changes. The statement is vague, but could be considered to be a call for cartels for declining industries and a sharing out of markets. Accordingly, this paragraph should be clarified to disavow cartel arrangements, or else dropped from the document.

The following is suggested language to replace paragraph 14:  
"Wide gaps exist among various countries in the speed and extent of the process of structural adjustment to reflect changing economic conditions. Countries lagging in this endeavor should be encouraged to accelerate their adjustments, and a continuing dialogue must be maintained among the developed countries to minimize the economic disruptions caused by such adjustment. However, it should be recognized that cartel-type arrangements are an inappropriate international response to the problems of declining industries and lagging structural adjustment in certain nations."

  
Secretary of Commerce

THE UNITED STATES TRADE REPRESENTATIVE  
WASHINGTON  
20506

June 18, 1981

MEMORANDUM TO: CRAIG FULLER  
FROM: WILLIAM E. BROCK   
SUBJECT: Japanese Paper on Trade for Ottawa Summit

Attached are comments and suggestions regarding the June 2 Japanese draft on trade prepared for the Ottawa Summit.

Attachment

*Craig*  
*It's implicit, but perhaps we should make it explicit - basically we agree with the paper and its premises.*





## Comments on Japanese Paper

### Paragraph 13

First sentence implies that governments have a role in "anticipating future industrial structures and technological patterns." It would be preferable to omit this sentence and begin the second sentence with the words "private sector." In addition, we would propose adding a new sentence along the following lines:

"It is critical that governments not artificially stimulate advanced sectors--which can lead to development of new industries that cannot compete without continued government support or protection."

These changes are designed to de-emphasize government's role in promoting development of advanced sectors and hopefully, to discourage some of the excesses of our trading partners in promoting their high technology sectors.

### Paragraph 17

We would like to add "trade in advanced products (e.g. high technology goods)" to the last sentence. This is a critical area for U.S. trade interests and its inclusion would be consistent with the administration trade policy statement we have been preparing in recent months.

### Paragraph 22

We propose adding "and other forms of government intervention that distort trade" after the word "protectionism" in the first sentence to emphasize that import restraints are not the only serious challenge to the world trading system today.

The added reference is broad enough to encompass domestic subsidies which shore up inefficient industries and export subsidies--both of which make it more difficult for other countries to resist protectionist pressures.

THE WHITE HOUSE  
WASHINGTON

C.F.  
018653CA  
FD 006-01

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: June 15, 1981 NUMBER: 018653CA DUE BY: COB, Thursday, June 18, 1981  
SUBJECT: Japanese Paper on Trade for Ottawa Economic Summit

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Allen	<input type="checkbox"/>	<input type="checkbox"/>
attached ✓ Treasury to NBD 6/20	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Anderson	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Garrick	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Gray	<input type="checkbox"/>	<input type="checkbox"/>
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* ✓ Commerce to NBD 6/22	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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CIA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Remarks: Attached is the Japanese paper on trade prepared for the Ottawa Summit. Please provide any views you may have on this paper by COB, Thursday, June 18.

send response to N.B. Dyke

RETURN TO: Craig L. Fuller  
Deputy Assistant to the President  
Director,  
Office of Cabinet Administration  
456-2823

✓ [unclear] [unclear] [unclear] [unclear] [unclear]



OFFICE OF THE VICE PRESIDENT  
WASHINGTON

June 8, 1981

MEMORANDUM FOR CRAIG FULLER

SUBJECT: Japanese Paper on Trade

Attached is the latest draft of Japan's paper on trade for the Ottawa Economic Summit, which we received Friday. Although it is a Japanese paper, and will not necessarily be revised to reflect our views, it would be useful to have your views on it so that we can incorporate them in the briefing materials we will prepare for the Summit.

A handwritten signature in black ink that reads "Nancy".

Nancy Bearg Dyke  
Assistant to the  
Vice President for  
National Security Affairs

Attachment



EMBASSY OF JAPAN

2520 MASSACHUSETTS AVENUE, N.W.

WASHINGTON, D.C. 20008

(202) 234-2266

June 2, 1981

Dear Mr. Rashish:

I have the honor to transmit to you the following message from Mr. Kiyoaki Kikuchi, Personal Representative of the Prime Minister for the Summit Meeting.

"June 2, 1981

Dear Mr. Rashish:

The attached is an abridged and revised edition of our previous paper on "Trade". This paper hopefully should cover all thoughts to be discussed and eventually to be incorporated in the communique.

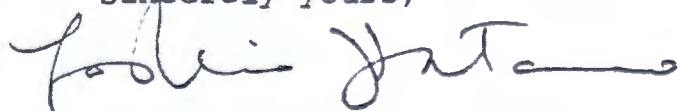
I am sending copies to all our Personal Representative colleagues.

Yours sincerely,

Kiyoaki Kikuchi  
Personal Representative"

Allow me to extend my warmest personal regards.

Sincerely yours,



Yoshio Hatano  
Minister

Attachment

The Honorable  
Myer Rashish  
Under Secretary for Economic Affairs  
Department of State  
Washington, D.C. 20520

June 2, 1981

## On Trade

### Introduction

1. The Present world economic situation of slow growth, high inflation, and balance of payments difficulties presents an extremely unfavorable environment for world trade growth. Especially against the background of rising unemployment in most of the summit countries, governments are faced with increasing protectionist pressures. Therefore, it will be of utmost importance for the summit leaders in Ottawa to reaffirm their strong political determination to adhere to the open and multi-lateral trading system and to declare their solid stance to resist protectionist pressures.
2. The post-war international economic system was established on the firm belief in an open, competitive economic system, as was exemplified in the general agreement on tariffs and trade (GATT). The 6.8 times increase in real terms in the volume of world trade in the past three decades compared to only doubling between 1900 - 1940 is an ample proof of the correctness of our choice.
3. In 1970's, however, world economy encountered unprecedented turmoil in the post-war era primarily due to two oil shocks. This plight has been aggravated by the insufficient adaptation and adjustment to the various structural changes, such as shifts in relative prices including oil prices, shift in the pattern of demand, technological innovation, and the emergence of newly industrializing countries. More recently, there appears a tendency to attribute these difficulties to competition from abroad, and thereby to vindicate protectionist pressures. In the event that summit countries should give way to protectionist temptation, then it would not only delay the process of structural adjustment, viz., shifting capital and labor to more efficient and more productive sectors of industries, but also would result in aggravating unemployment and inflation. Furthermore, the world would undoubtedly see a proliferation of protectionist restrictions, whether they be hidden, overt, vicarious or retaliatory, thereby undermining economic efficiency on a global scale.
4. Solution to the trade problems, therefore, should be sought in macro-economic policies and structural adjustment policies to improve productivity and reduce economic and social rigidities rather than resorting to any trade protective measure.



5. The oil-importing LDCs, too, are also faced with an extremely difficult situation today, burdened with high inflation, deteriorated terms of trade, recession in their major export markets, and increasing debt accumulation. If such difficulties remain unsolved, the developing countries will not be able to provide expanding markets for manufactured products from the industrialized countries.

#### Policy Options

6. While there is no panacea for solving instantly the problems facing world trade, we the summit seven should jointly tackle the problems along with the following prescriptions; (a) re-affirming our unswerving commitment to an open and multilateral trading system, (b) effectuating structural adjustment within the context of a macro-economic approach, and (c) exploring possible new initiatives to cope with the challenges in 1980's world trade.

7. We should not succumb to domestic pressures both for trade restrictive actions, outright or hidden, and for more subsidies propping up inefficient industries.

It is also to be noted that an unbridled export credit race will undoubtedly distort trade, and we strongly hope that the on-going negotiations on export credits be successfully concluded.

#### (Fight against protectionism)

8. There is an argument that, in order to secure political solidarity among the industrialized democracies, our economies must not be weakened by international competition among ourselves. There also appears recently a creeping trend aiming at organizing future trade flows under the guise of various forms. However, economic viability of the industrialized democracies can be secured only through wholesome international competition in this age of constant, rapid, technological and managerial innovation. This is a crucial point on which we have to bring home to our publics.

9. It is also important to enlighten our publics that, the balance of trade should be viewed not bilaterally but globally, and also be viewed together with the balances on the accounts of services, transfers and long-term capital.

10. The world market has now been made more open to free competition as a result of the recent Tokyo round negotiations. Thus, more than ever, competitiveness plus sales efforts on the part of exporting countries will determine success or failure in developing their export markets. This is particularly the case with trade in manufactured goods.



11. In addition, the declaration on trade policy which was made as a standing pledge by the OECD countries should continue to be the guiding principle for a free and open flow of trade among them.

(Domestic structural adjustment)

12. The positive adjustment policy exercise now being carried out at the OECD, and the work on structural adjustment and trade policy now being initiated by the GATT should be encouraged.

13. Anticipating future industrial structures and technological patterns would also play an important role in realizing smooth domestic structural adjustment. Investment in growing industries, including R&D investment, pursuit of technological innovation, raising of productivity and competitiveness are all essential ingredients of the efforts for such structural adjustment. In more concrete terms, vast new frontiers in technological innovation should be explored in such areas as (a) high technology industries including information process (computer-telecommunication, particularly, micro-processors), bio-chemistry, as well as space science, and (b) energy, both on the supply and demand sides.

14. There are wide gaps among various countries in the speed and the extent of the process of adjustment to structural changes, and promotion of industrial cooperation among developed countries should be effective in bridging such gaps.

15. It is also important for the stable development of world economy, and in particular, for the advancement of structural adjustment, that unwarranted and abrupt increases in oil prices would not take place in the coming years.

(New Initiatives)

16. We should strengthen the activities of both the GATT and the OECD with an objective to consolidating and further promoting the open and multilateral trading system.

17. The view is widely shared that the launching of the Tokyo round and the subsequent negotiations themselves served as an effective deterrent against the possible protectionist actions in 1970's. With this lesson in mind, it may be timely to explore a possible new initiative by the GATT to meet challenges in the 1980's world trade, and, it may be appropriate to support such an initiative. There should be a number of subjects to be tackled with in this initiative, such as structural adjustment, investment, trade in services, trade in agricultural products, trade with different market systems and Tokyo round "leftovers" such as safeguards.

18. Holding a GATT ministerial meeting would be a worthy idea in this regard as well as to give a political impetus to the free trading system.

(Relations with developing countries)

19. Though the above prescriptions will also fit the developing countries, the following points are to be considered:

I) The industrialized countries should continue efforts to expand market access for the LDCs' products, including improvement of the GSP;

II) The oil-importing countries should on their part improve their investment environment to induce foreign capital for the expansion of their output and exports;

III) It is also important for the developing countries to be fully integrated into the international trading system. In this respect, the participation of a larger number of developing countries in the GATT and MTN agreements is strongly urged;

IV) Ties existing between certain industrialized countries and certain developing countries should not be operated in such a manner as to hamper trade flow with the rest of the world;

V) The assumption of wider obligations by the more advanced among developing countries is also an important element in this regard.

(Current trade difficulties)

20. In the foregoing paragraphs, emphasis has been placed mainly on a medium, long-term approach. At the same time, it cannot be denied that clamors are now being made for certain measures designed to meet short-term purposes. Some argue for refuge from international competition by seeking a "breathing space." However, in the past experiences, such a "breathing space" did not provide a cure, and moreover, it tended to be perpetuated as well as contagious. (Accordingly, such a concept should be carefully studied in conjunction with the study on safeguards under way in the GATT framework.) In the connection of the GATT, it should be reminded that where imports are the cause of serious difficulties, the GATT already provides a contractual and equitable framework and procedures for temporary relief.



## Conclusion

21. In the present world of growing interdependence, an open and free trade and investment system is the major vehicle for advancing the world economic growth, and it plays a central role in growth and development of both developed and developing countries. Moreover, in the world we live in, the two basic economic systems, the free market system and the centrally planned system, are vying throughout the world for a greater credibility in terms of validity, vitality and superiority. We now stand at a critical moment in the history of market economies.

Therefore, we must be united in our common endeavours to maintain and promote the viability and dynamism of our free market economies.

22. The uphill fight against protectionism is not a responsibility of any single country, but a joint responsibility to be shared by all the summit countries.

If we allow a politicization of trade issues, if we try to seek a solution from abroad rather than to seek fundamental domestic remedies, and further, if we introduce an emotional element into trade problems, we would be repeating the mistakes that led us to the pre-war traumatic experiences of trade, tariff and currency wars. The common determination of the summit countries to avert such repetition should have priority over all domestic considerations.

23. Close consultation on a macro-economic policy is absolutely necessary to help mutual understanding on policy objectives. However, coordination a la rigueur, particularly a type of coordination, which would bring all the trading partners into line with the pace of slower vessels, might lead the fleet of the industrialized economies eventually to sink together in the ocean of misery and defeat of the market system.

24. The only way to avoid such a course will be international cooperation among the industrialized democracies within the framework of open market, free trade, and free competition. Only through such cooperation, can we hope to preserve and promote the dynamism of our system, which should be the driving force behind maximizing well-being of mankind as a whole in the coming decades.





OFFICE OF THE VICE PRESIDENT  
WASHINGTON

May 14, 1981

5/26 File  
Item held  
for redrafting  
by VP's  
office  
af

MEMORANDUM FOR: CRAIG FULLER  
SUBJECT: U.S. Trade Paper for Ottawa Economic Summit

Attached is the paper to be provided to the Japanese as input for their Ottawa Economic Summit paper. As we discussed on the phone, the members of the Trade Policy Committee have reviewed the paper and it was sent to me by the office of the U.S. Trade Representative. After White House review through Dick Darman, I believe the paper will be ready to give to the Japanese.

*Nancy*  
Nancy Bearg Dyke  
Assistant to the Vice President  
for National Security Affairs

## OTTAWA SUMMIT

### U.S. Thoughts on Trade

Successive Summits since the mid-1970's have contributed significantly to managing a period of substantial stress on the international trading system. Summits have built, on the foundation of OECD trade declarations, a strong political commitment to an open trading system. The timely political stimulus given by Summit participants contributed to the successful conclusion of the Multilateral Trade Negotiations (MTN) in 1979. The last three Summits have begun to focus attention on rigidities in our domestic economies and to encourage adjustment to reflect real shifts in competitiveness.

Despite these achievements, as we approach the Ottawa Summit, the overall trading climate has deteriorated. Economic growth in our countries has slowed and inflation has risen. Developments in the world economy over the past few years, such as the sharp increases in energy prices and rapid emergence of new suppliers of manufactured products in world markets, have simultaneously increased the need for adjustment in our economies and created strong pressures for protective measures against selected imports

to slow or stymie the adjustment process. Governments are also tempted to offset oil-related payments deficits by restricting imports or artificially increasing exports. We are seeing a proliferation of neo-protectionist devices, including domestic subsidies, mixed or excessive official export credits, barter deals, supply access arrangements, and investment performance requirements, which are not covered by the MTN codes.

We must deal forcefully to counteract these trends if we are to succeed in our efforts to promote efficiency in our domestic economies and to strengthen Western cohesion on economic relations with the rest of the world. Individual efforts to insulate our economies from adjustment or to offset oil-related deficits can only lead to collective failure. In Ottawa the renewal of our commitment to an open trading system and to resist protectionism must be fresh and credible.

We need an effective strategy which embraces both domestic adjustment and international cooperation. The international side should be aimed at promoting trade liberalization, strengthening the international trading system, and reversing the trend toward new forms of protectionism.



### Domestic Adjustment

A coherent response to changing world trade patterns and to the associated domestic adjustment pressures must begin with macroeconomic policies that facilitate the operation of market forces and encourage non-inflationary economic growth. Competitiveness at home and abroad requires domestic economic policies that reduce inflation, lighten the burden of government, and stimulate research and development and investment, thus, raising productivity. The new U.S. Administration's economic recovery plan provides the framework for achieving these objectives. The four component parts of the plan are: reduction of government expenditures, reduction of taxes, regulatory reform and control of money and credit. Widespread government intervention in the form of trade protection is not compatible with this program.

### International Measures: Agenda for the 1980s

The current situation is not business as usual, either generally or for the U.S. In the absence of any ongoing round of trade negotiations, we need to restore forward momentum and strengthen international cooperation in support of an open trading system. The first step should be to

develop an agenda for action on trade in the 1980s. Some issues, such as export credits and renewal of the Multi-fiber Arrangement, will have to be addressed immediately. Continued attention will have to be given to implementation of the MTN agreements. Other issues which deserve priority attention include (a) international trade in services, (b) incentives, disincentives and performance requirements related to investment, (c) the development of an international agreement covering safeguard actions, and (d) the tendency toward bilateral deals for supply commitments on oil or raw materials. Of equal importance is the need to expand LDC participation in the trading system and to adapt it to the problems of trade with the nonmarket economies.

#### Immediate Issues

Export Credits - Given the growing consensus among Summit participants on the need to reduce trade distortions, as well as a desire to reduce the growth of government expenditures, the participants should agree to enforce their Venice Summit agreement to bring export credit rates closer to market rates. This issue needs to be resolved immediately. With the failure of the export credit negotiations, participants have taken a variety of actions to improve their

competitiveness. We could face a costly and self-defeating export credit war if Summit participants do not renew their Venice commitment and agree to honor it by a set date. The U.S. would like to suggest October, 1981 as a reasonable target date. At stake here is the credibility of all Summit commitments.

MFA Renewal - The renegotiation of the Multi-fiber Arrangement under the auspices of the GATT Textile Committee is one of the most importance issues on the 1981 trade agenda and deserves priority attention. Summit participants should keep in close touch as their positions develop and should begin to consider whether and how the Summit could facilitate successful conclusion of the negotiations.

Other Priority Issues

MTN Implementation - Our trade strategy for the 1980s should not only address the weaknesses of the trading system which have been exposed in recent years but build upon the successes of the 1970s. In particular, the Summit participants should agree to work for full and effective implementation of the MTN agreements by all signatories. The manner in which the MTN codes are applied will determine the shape and effectiveness of GATT discipline over non-tariff barriers



in the coming decade. Sustained effort is needed over the coming years to assure full implementation of the MTN.

Trade in Services - International trade in services can contribute to the same economic benefits as trade in goods, including economic efficiency, economic growth, increased employment and productive investment in the world economy. In the past 30 years, services trade has increased at an extraordinary pace, reflecting the growing service-oriented nature of the advanced economies. The international rules and procedures which have developed over the past several decades with respect to goods, for the most part, do not specifically apply to trade in services. The U.S. believes that the liberalization of trade in services and the achievement of fair competition in services should be one of our key objectives for the 1980s. This would help to assure an orderly expansion of economic relationships in services and to avoid increased intergovernmental tensions in this area.

Trade-Related Investment Issues - Our governments should address themselves in the 1980s to the wide variety of ways in which governments intervene to influence investment decisions. These policies can distort trade flows just as

seriously as do tariffs and non-tariff barriers. Both developed and developing countries use trade-related investment requirements and incentives (e.g., export performance and local content requirements) to accelerate their development efforts in particular directions and to preserve or create employment in chosen industries. Such measures can have an effect equivalent to that of export subsidies or import barriers and should be brought under a common international discipline. We should give~~d~~ impetus to the work in the OECD and the GATT on these issues.

Safeguard Negotiations - An important piece of unfinished business relates to the need for an appropriate international discipline for safeguards actions. The existing GATT procedures have in certain circumstances proved to be so unattractive that countries have felt compelled to circumvent them. The clarification of international rules on safeguards is critical to the integrity of the international trading system. Without an understanding on commonly accepted safeguards practices, we will likely see the gradual accumulation of arrangements and practices that increasingly distort trade and undermine market-determined international competition. Achieving an improved discipline in the area

of safeguards should also be a key element of an improved trade relationship with the developing countries.

Bilateral Deals Involving Oil or Raw Materials - Concerns regarding the availability of oil and raw materials have led a growing number of governments to negotiate bilateral deals, which include supply commitments for oil or raw materials, investment commitments in processing facilities, and import commitments for processed goods. Such arrangements which are determined by a complex mix of political and economic considerations often may not be consistent with international trade commitments and may act as a restraint to free trade. The United States believes that this trend to bilateralism ought to be addressed in appropriate GATT and OECD fora. In energy, in particular, slack oil markets this year and next ought to be a disincentive to concluding such bilaterals, which while easy to make, are often awkward to terminate.

Trade with LDCs - Trade between our countries and the developing countries is increasingly important to our economic well-being. The developing countries' ability to import in turn depends critically on market access for their goods



and the availability of financing. One of our objectives for the 1980s should be to consolidate and expand on the work begun in the MTN of integrating developing countries more fully into the international trading system. We should encourage non-signatory LDCs to undertake the obligations of the MTN codes and encourage those LDCs which have acceded to the codes to play an active role in their implementation. The more advanced developing countries should undertake trade obligations commensurate with their state of development. We need to carry out our trade dialogue with developing countries through constructive discussions -- both bilaterally and in the GATT. Our objective would be to prevent the more acrimonious collective dialogue in other settings from souring the atmosphere for genuine progress in the trade area.

Non-market Economies (NMEs) and the GATT - We also need to develop a more comprehensive body of commercial rules to protect our commercial interests as NMEs move toward integration into our market-oriented trading system. NME membership in the GATT provides a bridge to fuller NME participation in our trading system, but we have not been able to find a way to ensure sufficient reciprocity in terms of access to

NME markets. Reciprocity would be enhanced if NMEs were to increase the transparency of their foreign purchase decisions and reduce their extensive bilateralization of trade. The possibility of early Chinese accession to the GATT would make serious consideration of these issues in both the GATT and OECD more urgent.

#### Institutional Considerations

The Ottawa Summit could give impetus to a trade policy work program for the 1980s. A basic question which Summit participants should address is the timing of an attempt to reach a consensus on such a work program.

A second question is that of the most appropriate institutional vehicle for initiating and carrying out work on the topics which we identify as important to address. On some topics, such as services and investment issues, we have made a constructive beginning in the OECD and we should encourage that institution to play a continued role. On other issues we will want to take advantage of the dynamism and competence of the new Director-General of the GATT. A meeting of GATT trade ministers, at the right moment and with careful preparation, could be very useful to pursue. We should, however, be cautious about launching initiatives in

the GATT before there is a broad consensus among the major developed countries. On all issues we will want to encourage the GATT and the OECD to work more closely together than they have in the past.

These considerations lead us to suggest that we consider asking Emile van Lennep, acting in his personal capacity, to consult with representatives of key developed and developing countries, to develop an agenda of trade issues for the 1980s, and to report back to the 1982 OECD Ministerial. The Summit could endorse this approach.

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